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ABSTRACT

This five-part unit, intended for secondary students, uses an activity-oriented approach in order to involve students in the workings of international trade. Part 1 introduces students to basic terms. Part 2 explores what would be missing from U.S. lifestyle if there were no international trade. Part 3 introduces students to the reasons why trade is important to daily life through a focus on the importance of trade in providing jobs and on the monetary value of trade to the world economy. Part 4 introduces students to the mechanics of importing and exporting goods. Part 5 is a case study designed to have students apply what they learned in the unit to the case of trade friction between Japan and the United States. The case study deals with negotiations to increase Japanese imports of U.S. beef and citrus products. Five appendices also are included: (1) a glossary; (2) a brief trade history of Japan; (3) a study of trade and less developed countries; (4) a bibliography; and (5) a teacher evaluation form. (DB)

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AN INTRODUCTION TO INTERNATIONAL TRADE:

FOCUS ON JAPAN & THE UNITED STATES

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AN INTRODUCTION TO INTERNATIONAL TRADE:
Focus on Japan and the United States
A Secondary Teaching Unit

SPICE/The Japan Project
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On the technical side, we thank the editing team of Libby Foley, final editor, and both Anne Callaghan and Cynthia Jarvis for their work in the early stages of development. Production responsibilities were handled by Tami Gideon with assistance from Joan Sykes-Okelo. Cover design was created by Wendy Wong.

Finally, yet most important, we express our appreciation to those San Francisco Bay Area teachers and students—the consumers—who so willingly allowed us to pilot test our ideas and lessons developed here at The Japan Project. Consumer input and acceptance are key to broad use of any product and their assistance has contributed substantially to the integrity of this unit.

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TABLE OF CONTENTS

GENERAL INTRODUCTION 1

WHAT IS INTERNATIONAL TRADE? 5

Introducing Students to Basic Terms 5

WHAT WOULD BE MISSING FROM OUR LIVES WITHOUT INTERNATIONAL TRADE? 6

HOW IMPORTANT IS INTERNATIONAL TRADE? 12

International Trade and Domestic Work Roles 12

Do Imports Cause Unemployment? 19

The Monetary Value of Trade 28

HOW DOES INTERNATIONAL TRADE WORK? 43

Role Play: The International Trader 45

UNDERSTANDING PROTECTIONISM 54

Why Trade? An Introduction to Absolute and Comparative Advantage 54

What Inhibits Trade? 61

Beef and Oranges: A U.S.-Japan Trade Negotiation 70

APPENDICES 81

I. Glossary 82

II. A Brief Trade History of Japan 86

III. Trade and Less Developed Countries 88

IV. Bibliography 90

V. Teacher Evaluation Form 95

GENERAL INTRODUCTION

One of the biggest gaps in economics education has been that of explaining and illustrating the various economic systems operating in our world and how they interrelate. We also lack information on the mechanics and practical aspects of trade among countries.

Focus of the Unit

An Introduction to International Trade:. Focus on Japan and the United States attempts to explore aspects of market and mixed economies. Emphasis is placed on understanding the mechanics of international trade rather than the abstract theories behind it. Although Japan's trade with the U.S. (particularly California) is used as the primary case study, the concepts and activities illustrated in the unit may be applied to other countries. For example, sections on what international trade is, how it works, and its importance to the lives of those in the countries involved in trade, have relevance to other world areas as well.

The unit does not attempt to deal with centrally-planned economic systems, as important as it is to also understand them. Neither does it deal directly with trade issues between industrializing and industrialized nations. Preliminary information has been provided, however, regarding trade patterns of "less developed ('developing') countries," or LDC's, whose trade patterns often differ from those of "industrialized" nations such as Japan and the United States (see Appendix III).

The Activity-Oriented Approach

The unit takes an activity-oriented approach in order to involve students in the workings of international trade. While Part I introduces basic terms, Part II explores what would be missing from our lifestyle if there were no international trade. By focusing on the importance of trade in providing jobs, and on the monetary value of trade to the world economy, students are introduced in Part III to the reasons why trade is important to daily life. Part IV actually involves students in the mechanics of importing and exporting goods. Part V is a case study designed to have students apply what they have learned in the unit to the case of trade friction between Japan and the U.S. The case study deals with the negotiations to increase Japanese imports of American beef and citrus products.

Objectives

KNOWLEDGE

Students will:

- define international trade and related concepts;
- collect and record data regarding imported products in their homes;
- understand the importance of trade (particularly with Japan) to our lives, focusing on California and Japan;
- explore the perception that imports cause unemployment;
- trace the steps involved in importing and exporting products between the U.S. and Japan;
- identify and evaluate two perspectives on a trade-related issue;
- articulate arguments for and against protectionism.

SKILLS

Students will practice the skills of:

- data collection;
- graph creation and interpretation;
- role playing (exporters and importers of goods);
- research;
- math, specifically calculation of "comparative" and "absolute" advantage;
- critical reading to identify multiple perspectives.

ATTITUDES

Students will:

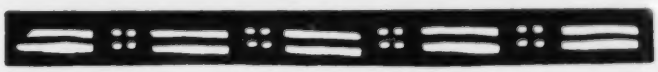
- begin to understand the complexity of international trade and what it can provide;
- realize the economic interdependence of nations;
- understand that every issue has many points of view;
- experience a peaceful resolution of conflict between two nations through negotiation;
- be introduced to the multitude of careers involved in world commerce.

Where and When to Use the Activities

These activities are intended primarily for secondary students (grades 7-12). Lesson 2, however, can also be used for grades 4-6. No background in U.S.-Japan economic relations or international economics is necessary to complete the unit, although prior exposure to these areas would be useful. The materials are designed to supplement a full course of study either in economics or social studies. Explanations for the teacher precede copy-ready handouts for students.

An Introduction to International Trade: Focus on Japan and the United States is the first of three sequential units on economic issues related to the United States and Japan. The second and third units are, respectively, The U.S.-Japan Balance of Trade/Payments in a Global Context, and The Global Product. Each unit is designed to be completed in two to five class periods.

For other cultural examples of international trade issues consult two SPICE units: Microelectronics Link (The Latin America Project) and International Trade Issues: The United States and Taiwan (The China Project).



WHAT IS INTERNATIONAL TRADE?

Introducing Students to Basic Terms

As a preparatory assignment for students who have had no exposure to international trade, it would be advisable to have them read Handout #1, "What Is International Trade?" on the following two pages. Depending on teacher objectives for the unit, students may also familiarize themselves with terms in the glossary. The glossary is otherwise intended to be a guide to terms introduced throughout the unit; as such, a copy should be made for all students. Note that terms found in the glossary are underlined throughout the unit text.

WHAT IS INTERNATIONAL TRADE?

How did your Sony Walkman get from Japan, where it was made, to your local audio store here in the U.S.? What about your neighbor's Toyota or Honda car? How did the coffee from Kenya that your family had this morning get into the American grocery store where you bought it? How do you think an American hit record album came to be given as a birthday present to a Brazilian student your age living in São Paulo? What about the California almonds that are being enjoyed by people in Europe? Somehow these things get from the country that makes them to the country where they are used. How? We can find out by exploring international trade.

In its simplest form, international trade* means exchanging goods and services between nations. Goods are articles or products, almost anything from pencils to peanuts to plastic to petroleum. A service is an activity/work provided for someone else that is used (consumed) as it is provided. Examples of services are piloting a plane, showing someone how to build a machine, and developing a computer program. Therefore, examples of international trade are bringing audio equipment or cars from Japan into the U.S. and sending American hit records to Brazil or U.S. farm products to Europe.

Goods and services which come into a country are called that country's imports; those which are sent out of a country are that country's exports. Your Sony Walkman is an import to U.S. and an export from Japan. Of course, these goods--imports and exports--don't move around all by themselves. Millions of company workers and managers and business people, plus bankers, government employees, and other people, make international trade flow among the countries of the globe.

---

* Underlined words are more fully defined in the glossary.

WHAT WOULD BE MISSING FROM OUR LIVES WITHOUT INTERNATIONAL TRADE?

Introduction

Students can arrive at the answer to this question by participating in the homework assignment found on page 8 (Handout #2). The home product inventory asks students to list the countries in which a number of their families' everyday household items were made and/or assembled.

Note that it may be necessary for students to research some products' country of origin. In general this information may be obtained by contacting the maker or local distributor. Handout #3 provides a list of common makers and the location of their headquarters. However, due to the diversification of production abroad by many companies, it is often difficult to determine where a particular item was actually made or assembled. In fact, inter-dependence due to this diversification is an important concept for students to understand.

Objectives

- to clarify how much in our lives is imported from other countries;
- to identify areas of the world which seem to be particularly important sources of goods for Americans;
- to grapple with the difficulty of finding out where products were actually made and/or assembled;
- to realize the complex interconnectedness of nations both in the production (or assembly) and use of goods.

Time

One class period and homework

Materials

Handout #2, "Data Collection Sheet"
Handout #3, "A Partial List of Countries of Origin of Household Goods."

Procedure

1. Have students complete Handout #2 as a homework assignment. You may want to assign them the additional task of contacting a local distributor or the maker if they cannot find the information in other ways.

2. Distribute Handout #3 at the same time or in class the next day when going over the homework assignment.

3. During the next class, discuss answers and conduct a tally of students' responses for particular items. You may want to have students construct a bar graph of particular products' countries of origin.

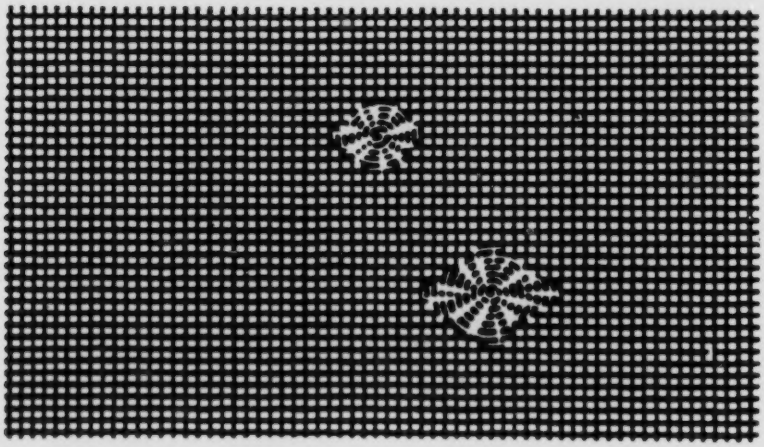
4. Have students find on a map the countries where all products were manufactured. Ask them why many household items and clothing come from certain areas of the world (especially Asia).

Follow-Up

Students may research the interdependence of countries by determining the origin of the raw materials needed to manufacture items on the data tally sheet. They may also look into common American exports to the areas of the world represented by the household inventory of imports.

Evaluation

You may want to use the bar graph, mapping, or research assignments above as evaluation tools.



WHAT WOULD BE MISSING FROM OUR LIVES WITHOUT INTERNATIONAL TRADE?

DATA COLLECTION SHEET

Name the country in which each of the following items was made. If you have more than one of any item, name all the countries. If you cannot find a label of "Made in [country]" on the item, check with your family. You may also need to contact a local distributor or the maker directly if you cannot find out in other ways. As a last resort, consult Handout #3 which lists some common goods and the locations of their manufacturing companies' headquarters.

Your family's T.V. _____

Your family's radio _____

Your family's camera _____

Your family's watches _____

Your family's car _____

Your bicycle _____

Clothing you are wearing now _____

Adapted from Michele Shoresman and Waunita Kinoshita, Learning With Enjoyment (Tanoshii Gakushu), (Urbana, IL: Center for Asian Studies, University of Illinois, 1980), p. 41.

cathy*
by Cathy Guisewite
MY EYELIDS ARE "MEDITERRANEAN OCEAN BLUE"... MY EYELASHES, "SMOKEY MOUNTAIN GRAY"... MY CHEEKS, "DESERT SUNSET"... MY LIPS, "CORAL REEF RED"...
...INDIAN EARRINGS ON MY EARS... FRENCH COLOGNE ON MY TEMPLES... AND A JAPANESE HAIR ORNAMENT FROM A DRUGSTORE IN DAYTON IN MY HAIR...
I FEEL SO COSMOPOLITAN.
I HAVE EIGHT DIFFERENT REGIONS OF THE WORLD REPRESENTED FROM THE NECK UP.

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A PARTIAL LIST OF HOUSEHOLD GOODS AND THEIR ORIGINS

PRODUCT	BRAND NAME	MANUFACTURING COMPANY	HEADQUARTERS LOCATION*
AUTOMOBILES	American Motors	American Motors Corp.	Southfield, MI
	Audi	Volkswagenwerk	(FRG)
	BMW	Bavarian Motor Works	Montvale, NJ (FRG)
	Buick	General Motors Corp.	Detroit, MI
	Cadillac	General Motors Corp.	Detroit, MI
	Chevrolet	General Motors Corp.	Detroit, MI
	Chrysler	Chrysler Corp.	Detroit, MI
	Citroen	Citroen Car Corp.	Englewood, NJ (FRANCE)
	Datsun	Nissan Motor Corp.	Carson, CA (JAPAN)
	Dodge	Chrysler Corp.	Detroit, MI
	Fiat	Fiat Roosevelt	Englewood Cliffs, NJ (ITALY)
	Ford	Ford Motor Co.	Dearborn, MI
	Honda	Honda Associates, Inc.	New York, NY (JAPAN)
	Jaguar	British Leyland Motors, Inc.	Leonia, NJ (GREAT BRITAIN)
	Lincoln	Ford Motor Co.	Dearborn, MI
	Mercedes	Mercedes-Benz	Mountvale, NJ (FRG)
	Mercury	Ford Motor Co.	Dearborn, MI
	MG	British Leyland Motors, Inc.	Leonia, NJ (GREAT BRITAIN)
	Nissan	Nissan Motor Corp.	Carson, CA (JAPAN)
	Oldsmobile	General Motors Corp.	Detroit, MI
	Peugeot	Peugeot USA, Inc.	Clifton, NJ (FRANCE)
	Plymouth	Chrysler Corp.	Detroit, MI
	Pontiac	General Motors Corp.	Detroit, MI
	Rolls Royce	Rolls Royce, Inc.	Paramus, NJ (GREAT BRITAIN)
	Saab	Saab-Scania of America	Orange, CT
	Subaru	Subaru of America	Pennsaken, NJ (JAPAN)
	Toyota	Toyota Motor Sales USA, Inc.	Torrance, CA (JAPAN)
	Volkswagen	Volkswagenwerk AG[1]	(FRG)
	Volvo	Volvo AB[2]	(SWEDEN)

* The countries (LISTED IN ALL CAPITALS AND PARENTHESES) are the locations of the companies' main headquarters. For instance, The Philips Corp. is headquartered in the Netherlands. Its subsidiary, The North American Philips Corp., which does business in North America, is headquartered in New York. Please note the difference between a company's headquarters (administrative offices) and its place of manufacture. Companies frequently manufacture all over the world--one part in Singapore, another somewhere in Latin America, and assembly in yet another country. As an example, American Motors lists licensees in the following countries (partial list): Australia, Bangladesh, Egypt, India, Indonesia, Israel, Japan, Korea, Kenya, Mexico, Morocco, Pakistan, Philippines, Portugal, Spain, Sri Lanka, Taiwan, Thailand, and Venezuela.

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BICYCLE	Motobecane	Motobecane America Ltd.	Hackensack, NJ (FRANCE)
	Nishiki		(JAPAN)
	Peugeot	Peugeot USA, Inc.	Clifton, NJ (FRANCE)
	Raleigh	Raleigh Industries Ltd. (Tube Investments, Ltd.)	Boston, MA (GREAT BRITAIN)
	Schwinn	Schwinn Bicycle Co.	Chicago, IL
	Univega		(JAPAN)
CALCULATORS	Radio Shack	Tandy Corp.	Ft. Worth, TX
	Sharp	Sharp Electronics	Paramus, NJ
	Texas Instruments	Texas Instruments, Inc.	Dallas, TX
CAMERAS	Canon	Canon USA	Lake Success, NY
	Kodak	Eastman Kodak Co.	Rochester, NY
	Konica		(JAPAN)
	Leica	Leitz, Inc.	Rockleigh, NJ
	Minolta	Minolta Corp.	Ramsey, NJ (JAPAN)
	Nikon	Nikon, Inc./Ehrenreich Photo Optical Industries, Inc.	Garden City, NJ (JAPAN)
	Olympus	Olympus Camera Corp.	Woodbury, NY (JAPAN)
	Pentax	Pentax	Englewood, CO (JAPAN)
	Polaroid	Polaroid Corp.	Cambridge, MA
CLOTHING	Dee Cee (painter's pants)	Washington Manufacturing Co.	Nashville, TN
	Fruit of the Loom	Northwest Industries, Inc.	Chicago, IL
	Hanes/L'Eggs Underalls	Consolidated Food Corp.	Chicago, IL
	Izod-Lacoste	General Mills, Inc.	Minneapolis, MN
	Lee (jeans)	VF Corp.	Wyomissing, PA
	Levi Strauss	Levi Strauss	San Francisco, CA
	Jordache	Gulf & Western Industries, Inc.	New York, NY
	Polo	Oxford Industries, Inc.	Atlanta, GA
	Osh Kosh B'Gosh	WorkWear Corp., Inc.	Cleveland, OH
	Wrangler/Jantzten	Blue Bell, Inc.	Greensboro, NC
DISHES	Corning	Corning Glass Works	Corning, NY
	Dansk	Dansk Int'l Designs, Ltd.	Mt. Kisco, NY
	Lenox	Lenox, Inc.	Lawrenceville, NJ
	Mikasa	Mikasa Co.	Secaucus, NJ (JAPAN)

---

[1] Parts are made in Warren, MI and Ft. Worth, TX. Bodies are made in New Stanton, PA.

[2] Bodies are made in Rockleigh and Northvale NJ, and in Torrance, CA. Engines are made in Chesapeake, VA.

DISHES (cont.)	Noritake	Noritake	New York, NY (JAPAN)
	Wedgewood	Wedgewood, Inc. (Wedgewood, Ltd.)	New York, NY (GREAT BRITAIN)
RADIO	Hitachi	Hitachi, Ltd.	New York, NY (JAPAN)
	Panasonic	Matsushita Electronics Corporation of America	Secaucus, NJ (JAPAN)
	Radio Shack/ Realistic	Tandy Corp.	Ft. Worth, TX
RADIO	RCA	RCA Corp.	New York, NY
	Sansui	Sansui Electronics Corp.	Lyndhurst, NJ (JAPAN)
	Sanyo	Sanyo Electronics, Inc.	Moonachie, NJ (JAPAN)
	Sony	Sony Corp. of America	New York, NY (JAPAN)
	Toshiba	Tokyo Shiburo Electric Co. Ltd.	(JAPAN)
STEREOS	AR	Acoustic Research, Inc. (Teledyne, Inc.)	Norwood, MA (Los Angeles, CA)
	BSR	BSR USA, Ltd.	Blauvelt, NY (GREAT BRITAIN)
	Kenwood	Kenwood Electronics, Inc.	Gardena, CA (JAPAN)
	Panasonic	Matsushita Electronics Corp. of America	Secaucus, NJ (JAPAN)
	Sansui	Sansui Electronics Corp.	Lyndhurst, NJ (JAPAN)
	Sanyo	Sanyo Electronic, Inc.	Moonachie, NJ (JAPAN)
	Sony	Sony Corp. of America	New York, NY (JAPAN)
	Technics	Matsushita Electronics Corp. of America	Secaucus, NJ (JAPAN)
TELEVISION	Magnavox	North American Philips Corp.	New York, NY (NETHERLANDS)
	Quasar	Matsushita Electronics Corp. of America	Secaucus, NJ (JAPAN)
	RCA	RCA Corp.	New York, NY
	Sansui	Sansui Electronics Corp.	Lyndhurst, NJ (JAPAN)
	Sanyo	Sanyo Electronics, Inc.	Moonachie, NJ (JAPAN)
	Sony	Sony Corp. of America	New York, NY (JAPAN)
	Zenith	Zenith Radio Corp.	Glenview, IL
WATCHES	Elgin	Elgin Watch Co.	Chicago, IL
	Seiko	Seiko Time Corp.	New York, NY (JAPAN)
	Timex	Timex Corp.	Stamford, CT

HOW IMPORTANT IS INTERNATIONAL TRADE?

International Trade and Domestic Work Roles

Introduction

In addition to the many goods and services people of the world enjoy as a result of international trade, there are two other reasons why trade is useful: It creates jobs (mainly because of gains from trade); and, it pumps approximately two trillion dollars ($2,000,000,000,000) into the world economy annually.

Students will first explore the connections between international trade and work roles created by it (Handout #4). They will then decide whether international trade can cause unemployment in the home country (Handout #5). Finally, Handout #6 will help them deal with the value of trade in monetary terms. It is followed by several graphs (Handouts #7-12) which illustrate various aspects of world trade involving Japan and the U.S.

Objectives

- to realize the importance of exports and imports for U.S. employment;
- to introduce categories of future jobs for students.

Time

Homework and part of following class period

Materials

Handout #4, "International Trade and Jobs"

Procedure

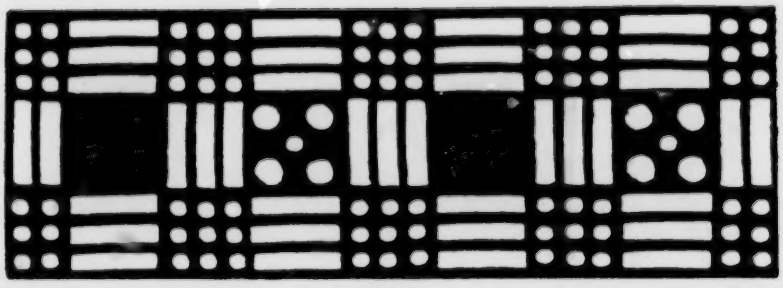
1. Have students complete Handout #4 as a homework assignment.
2. Discuss in class the following period. If you want to encourage group work, you may want to have students work in small groups either to complete the assignment (in or out of class), or to go over their answers.

   For your reference, an answer key follows Handout #4 (pp. 17-18).

Follow-Up

1. Have students interview a non-relative whose job is directly tied to international trade. Possible questions might focus on how the person got the job, what background and training were necessary to be hired, whether or not the job involves direct personal contact with other countries, and the interviewee's opinion on the importance of international trade to the San Francisco Bay Area.

2. Students could then share their data either in small groups or as a class to determine common elements about working in fields that relate to international trade.



HOW IMPORTANT IS INTERNATIONAL TRADE?

International Trade and Domestic Work Roles

Introduction

We have already seen that international trade is important to our lives because of the many products we enjoy that come from other countries. Another reason why trade is important is that it creates work for people (mainly because of gains from trade) around the world. In California, one out of every six jobs relates somehow to international trade--maybe your parents' jobs or your own future job!

Complete the worksheet below, which explores the connection between international trade and employment.

EXPORTS

1. What is an export? _____

_____

2. Why would exports provide jobs for people in a particular country?

_____

_____

3. Name three jobs that deal with exports to countries with which the U.S. trades 1. _____ 2. _____

_____ 3. _____

IMPORTS

Usually people think only of exports creating jobs. They don't realize that imports, too, create jobs:

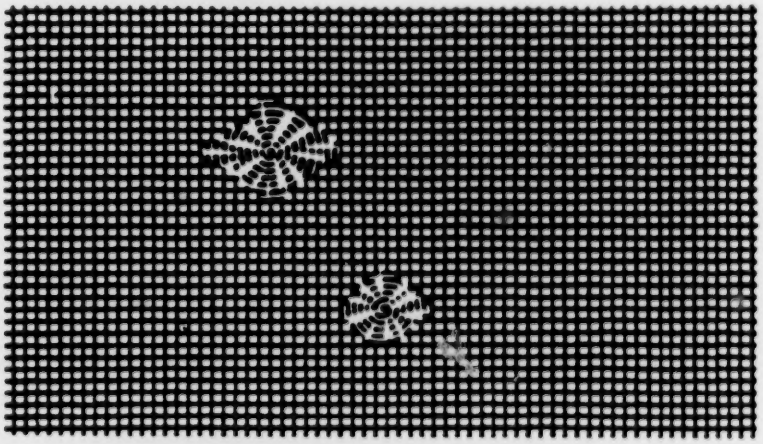
- jobs selling the imported goods;
- jobs which use the imported goods as raw materials to make other goods;
- transportation jobs such as ocean shipping, airlines, trucking, and railroads;
- service jobs related to imports, such as banking and insurance;
- government jobs related to imports, e.g., customs officers, accountants, those who make and set government policies, etc.

4. Referring to your answers on the Data Collection Sheet (Handout #2), name one company or kind of company/institution for each of the categories below which employs people involved with imports. For example, "Datsun or Toyota dealerships which sell cars" (to be placed under the category of SALES below).

	Name of Company	Name of Product/Service
Sales		
Transportation		
Service		

IMPORTS & EXPORTS

5. Think about your parents' and relatives' jobs. Name one person and his/her occupation which is related to international trade. For example, "Aunt Connie works for the City of Oakland Port Authority in processing papers from freighters bringing goods into the Bay Area from abroad." Or, "My mother is in the personnel department of United Airlines."



HOW IMPORTANT IS INTERNATIONAL TRADE?

International Trade and Domestic Work Roles

EXPORTS

1. What is an export? EXPORTS ARE GOODS WHICH ARE SENT OUT OF A COUNTRY.

2. Why would exports provide jobs for people in a particular country?

BECAUSE PEOPLE ARE NEEDED TO PRODUCE AND DISTRIBUTE GOODS AND SERVICES BOUND FOR OTHER COUNTRIES JUST AS THEY ARE NEEDED TO BRING GOODS IN FROM THE REST OF THE WORLD.

3. Name three jobs that deal with exports to countries with which the U.S. trades. POSSIBLE ANSWERS:

INSURANCE AGENT FOR EXPORTING COMPANIES

DOCK WORKER LOADING GOODS

TELECOMMUNICATIONS OPERATOR

AIRLINE AND FREIGHTER PERSONNEL

GOVERNMENT EMPLOYEE WHO PROCESSES PAPERS RELATED TO SENDING GOODS AND SERVICES ABROAD

EMPLOYEE OF MANUFACTURING FIRM THAT EXPORTS

FARMER

LANGUAGE SPECIALIST/TRANSLATOR

IMPORTS

4. Referring to your answers on the Data Collection Sheet (Handout #2), name one company or kind of company/institution for each of the categories below which employs people involved with imports.

	Name of Company	Name of Product/Service
Sales	DATSUN/TOYOTA DEALERSHIP	CAR SALES AND SERVICE
Transportation	BOEING, McDONNELL-DOUGLAS, TWA, UNITED, PAN AMERICAN	PRODUCT: AIRPLANES SERVICES: AIRLINE FREIGHT
Service	MARUBENI, MITSUBISHI, (JAPANESE GENERAL TRADING COMPANIES)	WIDE RANGE OF SERVICES FROM LOANS TO TELEXES TO FINDING BOTH DISTRIBUTORS AND CUSTOMERS
	BEACON INSURANCE COMPANY OF AMERICA FIREMAN'S FUND	INSURANCE AGAINST DAMAGE AND THEFT
	SECURITY PACIFIC NATIONAL BANK BANK OF AMERICA	LOANS, NON-LOAN CAPITAL (EQUITY), ADVICE, ETC.

IMPORTS & EXPORTS

5. Think about your parents' and relatives' jobs. Name one person and his/her occupation which is related to international trade.

UNCLE JACK, FLIGHT ATTENDANT

GRANDMA, CUSTOMS OFFICER

[AT THIS POINT YOU MAY WISH TO EXPAND THE LIST OF #3 ABOVE; IT MAY BE NECESSARY TO REMIND STUDENTS TO LOOK BOTH AT IMPORTS AND EXPORTS.]

HOW IMPORTANT IS INTERNATIONAL TRADE?

Do Imports Cause Unemployment?

Introduction

The 1983 closing of the Ford auto plant in Milpitas, CA or the newly formed joint venture between General Motors and Toyota reopening the Fremont (CA) GM plant are local events about which students and their parents may be concerned. To explore the question of whether importing goods and services from abroad worsens the employment situation in the U.S., the following activity (Handout #5) is suggested.

Objectives

- to explore the notion of imports from abroad causing unemployment;
- to learn about Trade Adjustment Assistance (TAA) and other government programs to bail out ailing industries;
- to encourage students' reading comprehension, critical thinking, and research skills regarding a local issue with global implications.

Time

One class period or homework assignment and part of the following class

Materials

Handout #5, "Do Imports Cause Unemployment?"

Procedure

1. Have students read Handout #5 and complete the worksheet following the reading. The assignment may be used in class to encourage group work, having small groups complete the worksheet after individually reading the information. Alternatively, Handout #5 could be used as a homework assignment or for extra credit.

2. Review answers with students, using the answer key on pages 26-27.

Follow-Up

1. You may want to have students research the joint venture between General Motors-Toyota and possible implications for the Bay Area economy in the future.

2. Alternatively, although relatively few U.S. industries have qualified for the U.S. government's Trade Adjustment Assistance (TAA), the class could research other examples of worker retooling programs at the local, state, or national level. Possible sources would be parents, newspapers, and federal, state, or local government agencies including the U.S. Department of Labor.

3. A third idea for extending the lesson is to have students conduct a survey of people's opinions on issues such as:

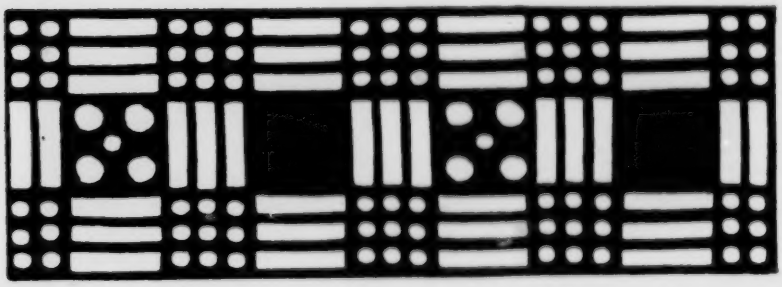
   a) Does international trade hurt or help the U.S. economy?;

   b) Do people interviewed believe in free trade in general, and must occasional exceptions be made to encourage free trade over protectionism?;

   c) In what ways, if any, have people interviewed been personally affected by the Ford plant closure (Milpitas), GM-Toyota (Fremont) deal?

Evaluation

Any of the above ideas under Follow-Up may be used to evaluate student research and critical thinking skills. The worksheet portion of Handout #5 can also be used to check reading comprehension.



HOW IMPORTANT IS INTERNATIONAL TRADE?

Do Imports Cause Unemployment?

Introduction

In 1983 a Ford auto plant in Milpitas, California and a General Motors (GM) plant in Fremont, California were closed. Some say this was because imported cars (particularly from Japan) were competing unfairly with American autos. They charge that imports have a bad effect not only on individual workers but on the U.S. economy as a whole. The Fremont plant has recently reopened under joint ownership by GM and Toyota and has begun production of a subcompact car.

There is no easy answer to the social problems (such as unemployment) that may arise when imports compete successfully enough to displace U.S. industries. Displacement is even harder for us to accept because it has happened in other industries which we Americans have traditionally considered to be our own realm of superiority, such as the shoe, textile, steel, and television industries, to name a few.

The reading which follows discusses general ideas of free trade vs. protectionism raised by cases like the ones mentioned above. It also explains what may happen to workers in certain industries and what measures the U.S. government may take to help industries which claim their workers are suffering because of competition with imported goods.

Your assignment: Read the following and answer the questions at the end.

Some Points To Consider

1. Most economists (regardless of differing economic philosophies) agree that free trade is healthiest for all countries. Even in cases in which foreign producers are competing unfairly (e.g., by receiving subsidies or payments from their governments, which allows the producers to charge an artificially low price), trade generally benefits all participating countries.
2. Although free trade benefits the nation as a whole, certain industries within that nation may find that they are hurt. Generally, this is because they are relatively less efficient producers than foreign producers. They are at a "competitive disadvantage." By being less efficient producers, their costs may be higher and/or their quality lower than that of the foreign producers. Of course, consumers are better off buying the lower cost and/or higher quality imported products, rather than higher-priced and/or lower quality domestic (home country) goods.

   The workers in the domestic industry may be laid off work because consumers don't want to buy their company's more expensive and/or lower quality home product. Although these workers can move into jobs in other industries or even into new jobs created by the new imports, it may take them some time. They may have had to move or may need special training, both of which can be serious social problems for the individual and the company.

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An Example Of Government Assistance To An Ailing Industry

Sometimes government programs help laid-off workers while they look for and train for new jobs. An example of this is the American shoe industry. In 1975, the International Trade Commission (ITC--a branch of the U.S. government) judged that U.S. shoe manufacturers had been seriously injured by imports of foreign shoes. That is, makers in other countries were producing cheaper shoes than American shoes. Imported shoes were what the American consumer wanted, however--a fact which U.S. manufacturers ignored. Then President Gerald R. Ford decided to have our government provide special unemployment benefits and job retraining for American shoe workers.

This was a program under the U.S. Department of Labor, called Trade Adjustment Assistance (TAA), which can provide workers in import-injured industries with:

- unemployment benefits (money);
- allowances (money) for job seeking;
- employment counseling (advice and referral in finding a new job);
- relocation allowances (moving expenses) for workers who move to get a new job.

However, some critics would have preferred that President Ford order quotas or tariffs on imported shoes, instead of Trade Adjustment Assistance. He probably did not order quotas or tariffs in order to encourage free trade and avoid protectionism. (See glossary and Part V for further discussion of free trade versus protectionism). President Ford also may have wanted to speed up adjustment (changes) in the shoe industry by using TAA instead of slowing down adjustment by protecting the ailing industry.

CHECKING COMPREHENSION

1. In what general cases does international trade not benefit participating countries? _____

2. How is free trade good for the consumer? _____

3. What sometimes happens to workers in a particular domestic industry when there is competition from manufacturers abroad? Name one industry where this has happened. _____

4. What can Trade Adjustment Assistance (TAA) do for workers in industries which have been seriously affected by competition from imports? _____

5. Besides offering assistance through TAA, what is one alternative the government has for dealing with imports which that domestic manufacturers?

In Your Opinion

In general, which is a better strategy for promoting trade between nations: free trade (where the best and/or cheapest product wins) or protectionism? Please explain your opinion.

CHECKING COMPREHENSION

1. In what general case does international trade not benefit participating countries? WHEN A MANUFACTURER IN ONE OF THE COUNTRIES IS BEING SUBSIDIZED BY THE GOVERNMENT, THEREBY ALLOWING THAT COMPANY TO CHARGE LOWER PRICES THAN IT COULD OTHERWISE.

2. How is free trade good for the consumer? OFTEN BETTER GOODS MAY BE PURCHASED AT LOWER COST WHEN THERE IS COMPETITION BETWEEN AMERICAN MANUFACTURERS AND THOSE OF OTHER COUNTRIES. ALSO, FREE TRADE OFTEN PROVIDES A GREATER RANGE OF CHOICES (STYLE, DESIGN, SPECIAL FEATURES, ETC.)

3. What sometimes happens to workers in a particular domestic industry when there is competition from manufacturers abroad? Name one industry where this happened. SOMETIMES WORKERS LOSE THEIR JOBS, EITHER TEMPORARILY OR PERMANENTLY. AN EXAMPLE OF THIS PHENOMENON IS THE AMERICAN SHOE INDUSTRY IN 1975.

4. What can Trade Adjustment Assistance do for workers in industries which have been seriously affected by competition with imports? IT CAN PROVIDE WORKERS WITH UNEMPLOYMENT BENEFITS, FUNDS FOR JOBS SEARCHES, EMPLOYMENT ADVICE, AND MOVING EXPENSES.

5. Besides offering assistance through TAA, what is one alternative the government has for dealing with imports which hurt domestic manufacturers? TO IMPOSE QUOTAS (LIMITS) OR TARIFFS (TAXES) ON IMPORTED ITEMS, SUCH AS SHOES, CARS, ETC. THE FORMER HAS THE EFFECT OF LIMITING THE QUANTITY OF GOODS SOLD, WHILE THE LATTER CAN RAISE THE PRICE FOR THE IMPORT ENOUGH FOR IT TO BE LESS COMPETITIVE WITH THE DOMESTIC PRODUCT.

In Your Opinion

In general, which is a better strategy for promoting trade between nations: free trade or protectionism? MOST ECONOMISTS FEEL THAT FREE TRADE DOES MORE TO PROMOTE WORLD TRADE THAN DO PROTECTIONIST POLICIES, SINCE PROTECTIONISM, WHICH IS USUALLY MET BY PROTECTIONISM, CAN CREATE BARRIERS ON ALL SIDES. THIS IS NOT TO SAY THAT SOME DOMESTIC INDUSTRIES, AND THE PEOPLE WHO WORK IN THEM, AREN'T HURT SOMETIMES BY FREE TRADE POLICIES.

HOW IMPORTANT IS INTERNATIONAL TRADE?

The Monetary Value of Trade

Introduction

As mentioned previously, the exchange of goods and services among nations amounts to approximately two trillion dollars ($2,000,000,000,000) per year. Although some countries benefit more than others from international trade, the world economy is helped overall by an active trading environment.

This section of the unit begins with a brief introduction (Handout #6) to the monetary value of trade. Discuss the contents of Handout #6 with students or assign it as a reading. The reading is followed by six pie or bar graphs which students are to interpret. A list of questions follows each graph.

Each pair of graphs deals with a different level of specificity of trade patterns. First are two graphs (Handouts #7-8) regarding aspects of Northern California's world trade which dramatically show the importance of our economic interaction with Asia. Handouts #9-12 deal with U.S. trade patterns, first with Japan specifically (#9-10). This bilateral relationship is then put into a world context (#11-12).

Objectives

- to grasp international trade's importance in monetary terms to the world economy;
- to interpret graphs regarding trade patterns of the U.S. as a whole and the State of California in particular;
- to realize California's reliance on trade with Asia (not just Japan);
- to reinforce the notion of economic interdependence among nations.

Time

This depends upon how many graphs are assigned.

Materials

Handout # 6, "The Monetary Value of Trade"
Handout # 7, "Northern California International Trade with Leading Trading Partners (1982)"
Handout # 8, "Northern California's Leading Trading Partners and Regions (1982)"
Handout # 9, "U.S. Imports from Japan (1982)"
Handout #10, "U.S. Exports to Japan (1982)"
Handout #11, "U.S. Imports from All Countries (1982)"
Handout #12, "U.S. Exports to All Countries (1982)"

Procedures

1. Introduce the monetary value of trade either by assigning a brief reading (Handout #6), or by presenting the information orally in class.

2. Have students interpret any or all of the graphs (Handouts #7-12), answering the questions following each graph.

Follow-Up

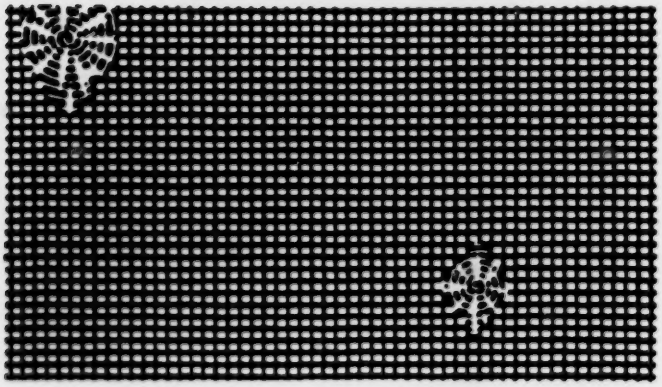
1. Have students research the types of goods that Northern California imports from Japan and compare the importing of these goods to the overall American pattern (Handouts #9 and 10).

2. For further information on historical trends in Japan's trade patterns, see Appendix III.

3. For more information on patterns of Northern California's trade with the world, consult the publication, The Bay Area and World Trade (see bibliography).

Evaluation

Have students convert one form of graph to another (i.e., pie to bar graph or other graphs which represent the statistics).



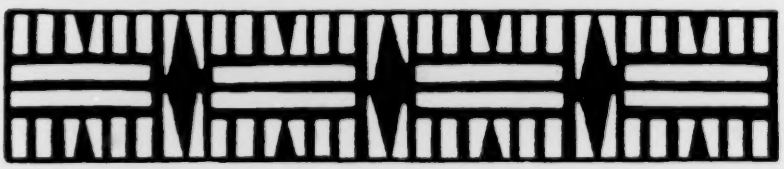
HOW IMPORTANT IS INTERNATIONAL TRADE?

The Monetary Value of Trade

Another way in which international trade is important, beside jobs and what it makes available in our lives, is its tremendous monetary value. In 1980, total world trade--imports and exports--was worth about $2 trillion ($2,000,000,000,000). If you had that much pocket money, you could play 1000 video games every day of every year for about 22 million years! Or, you could treat yourself and every other man, woman, and child in the U.S. to go see your favorite movie about 2,000 times each!

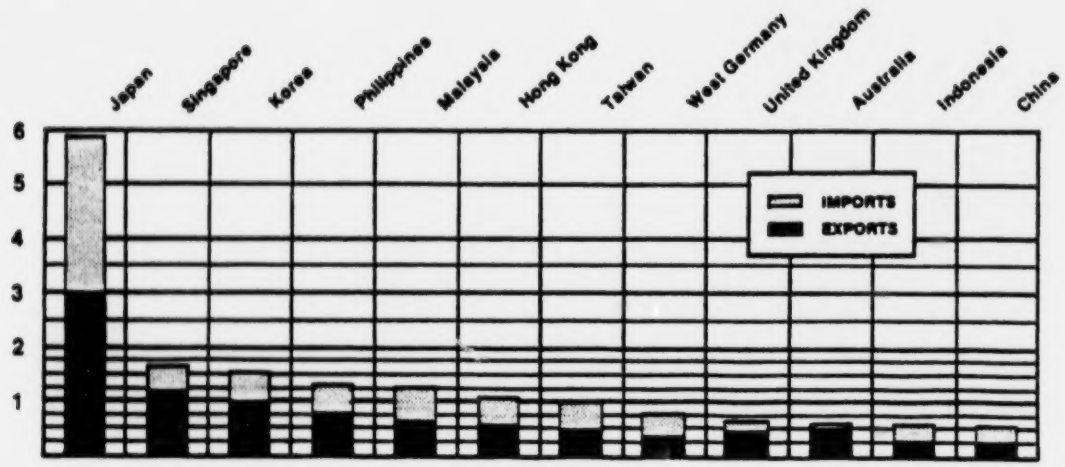
In 1981, California exported almost $30 billion ($30,000,000,000) worth of goods to other countries, and imported almost $32 billion worth. Out of these totals, Northern California exported about $11 billion worth of goods, including electronic components and products, data processing and office machines, grains (such as rice and wheat), fruits and nuts, cotton, and heavy machinery. Northern California's $9.5 billion worth of imports in 1982 included electronic components, cars, petroleum (oil), clothing, office machines, and iron and steel.

Northern California has a very strong trade relationship with Japan. Almost 1/4 of Northern California's exports went to Japan, and roughly 1/3 of our imports came from Japan. In fact, Japan is the single biggest foreign trading partner with Northern California.



-30-

NORTHERN CALIFORNIA INTERNATIONAL TRADE
WITH LEADING TRADING PARTNERS
1982
(in billions of dollars)



Questions:

1) What was the total value of Northern California's trade with Japan in 1982?

2) What was the value of Northern California's exports to Japan in 1982? Imports from Japan?

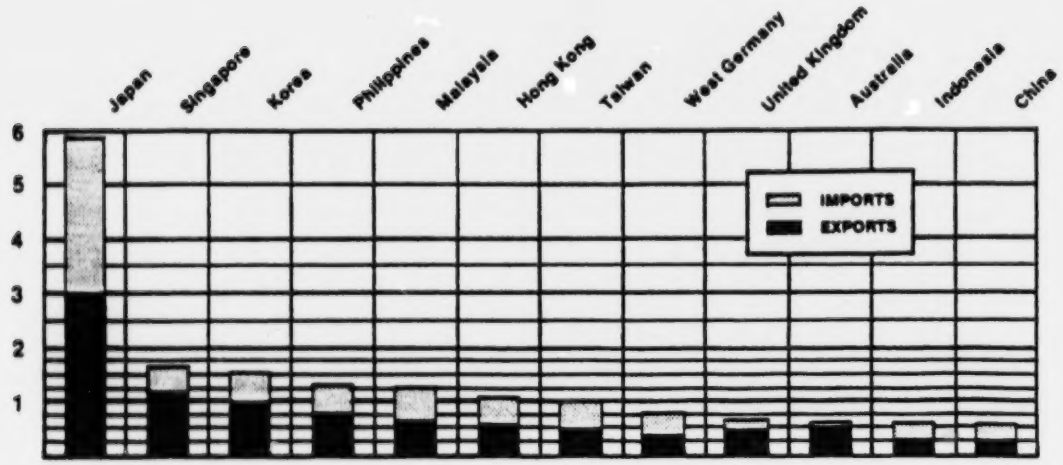
3) Was Northern California's trade with the Philippines greater than or less than its trade with China in 1982?

4) How would you compare Northern California's trade with West Germany to its trade with Singapore in 1982?

5) Why do you think Northern California's trade with Japan was greater than its trade with other nations? Why was trade with Asian countries much greater than trade with other areas mentioned?

From: Security Pacific Bank Economic Research Division
(Consultation with San Francisco Office, January 1984)

NORTHERN CALIFORNIA INTERNATIONAL TRADE
WITH LEADING TRADING PARTNERS
1982
(in billions of dollars)



Questions:

1) What was the total value of Northern California's trade with Japan in 1982? **Almost $6 billion ($5,941,000,000)**

2) What was the value of Northern California's exports to Japan in 1982? **Almost $3 billion ($2,975,000,000).** Imports from Japan? **Almost $3 billion ($2,966,000,000).**

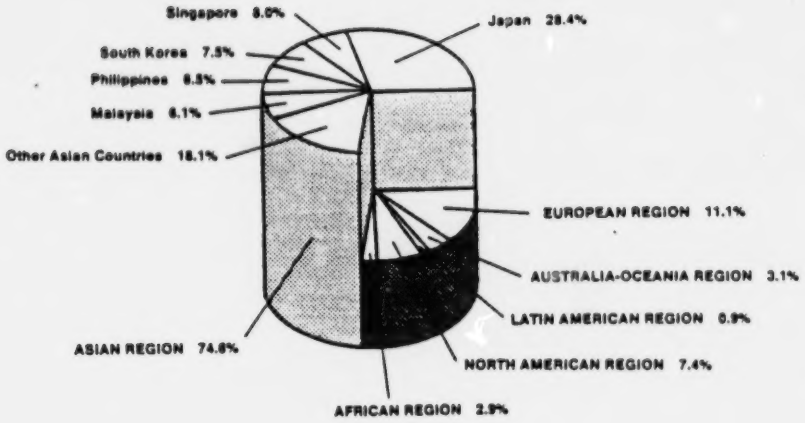
3) Was Northern California's trade with the Philippines greater than or less than its trade with China in 1982? **GREATER**

4) How would you compare Northern California's trade with West Germany to its trade with Singapore in 1982? **THOUGH IMPORTS FROM SINGAPORE AND WEST GERMANY IN 1982 WERE EQUAL, EXPORTS TO SINGAPORE WERE FAR GREATER THAN EXPORTS TO WEST GERMANY.**

5) Why do you think Northern California's trade with Japan was greater than its trade with other nations? Why was trade with Asian countries much greater than trade with other areas mentioned? **POSSIBLE ANSWERS: GEOGRAPHICAL PROXIMITY; ASIA HAS GOODS, SERVICES, AND/OR RAW MATERIALS WHICH NORTHERN CALIFORNIA NEEDS; CONVERSELY, NORTHERN CALIFORNIA HAS ITEMS TO EXPORT WHICH ASIAN COUNTRIES NEED OR WANT; HISTORICAL OR CULTURAL TIES TO ASIA, ETC.**

From: Security Pacific Bank Economic Research Division
(Consultation with San Francisco Office, January 1984)

NORTHERN CALIFORNIA'S LEADING
TRADING PARTNERS & REGIONS
1982
(Value as a Per Cent of Total Trade)



Questions:

1. Which REGION is Northern California's biggest trading partner?

2. Which COUNTRY is Northern California's biggest trading partner?

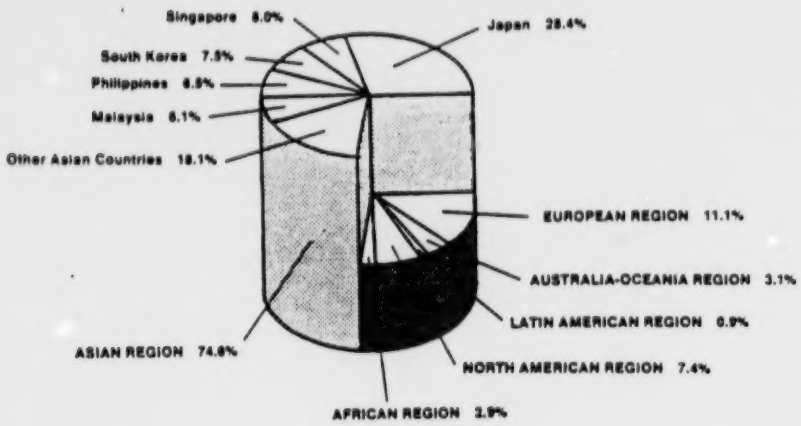
3. What is the total (combined) share of Northern California's trade for Japan, Singapore, and South Korea?

4. Which REGION is Northern California's second biggest trading partner? By how much percent does this region's trade with Northern California exceed that of the LATIN AMERICAN region?

5. Why might Northern California's trade with Asia (74.6%) be so much greater than its trade with Europe (11.1%), Latin America (.9%), or Australia (3.1%)?

From: Security Pacific Bank Economic Research Division
(Consultation with San Francisco Office, January 1984)

NORTHERN CALIFORNIA'S LEADING
TRADING PARTNERS & REGIONS
1982
(Value as a Per Cent of Total Trade)



Questions:

1. Which REGION is Northern California's biggest trading partner? ASIA: **74.6%**

2. Which COUNTRY is Northern California's biggest trading partner? JAPAN: **28.4%**

3. What is the total (combined) share of Northern California's trade for Japan, Singapore, and South Korea? **28.4% + 8% + 7.5% = 43.9%**

4. Which REGION is Northern California's second biggest trading partner? EUROPE By how much percent does this region's trade with Northern California exceed that of the LATIN AMERICAN region? **11.1% - .9% = 10.2%**

5. Why might Northern California's trade with Asia (74.6%) be so much greater than its trade with Europe (11.1%), Latin America (.9%), or Australia (3.1%)? **POSSIBLE ANSWERS: GEOGRAPHICAL PROXIMITY; ASIA HAS GOODS, SERVICES, AND/OR RAW MATERIALS WHICH NORTHERN CALIFORNIA NEEDS; CONVERSELY, NORTHERN CALIFORNIA HAS ITEMS TO EXPORT WHICH ASIAN COUNTRIES NEED OR WANT; HISTORICAL OR CULTURAL TIES TO ASIA, ETC.**

From: Security Pacific Bank Economic Research Division
(Consultation with San Francisco Office, January 1984)

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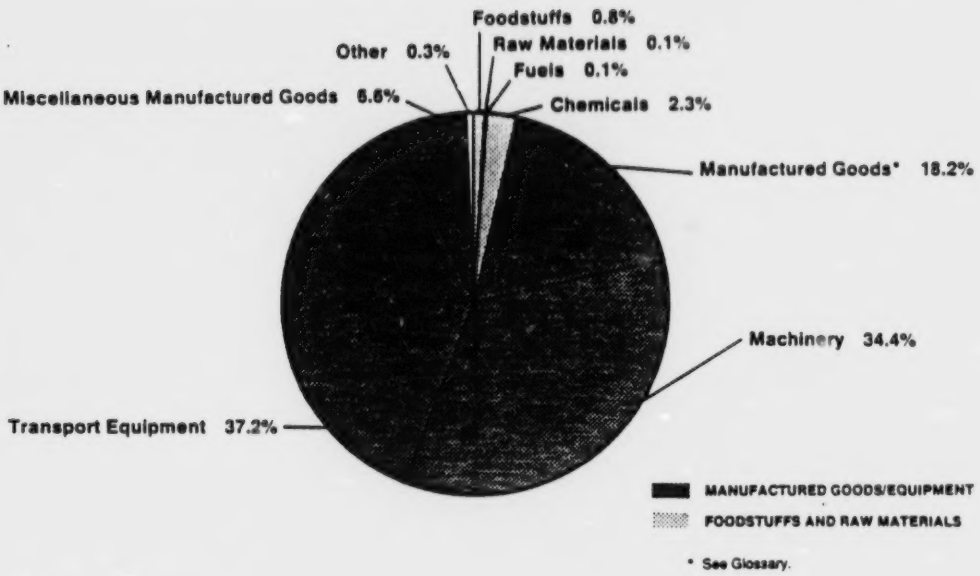
U.S. IMPORTS FROM JAPAN (1982)
Total: $35,930,193,076



Questions:

1. What is the largest category of imports from Japan to the U.S.? Why?

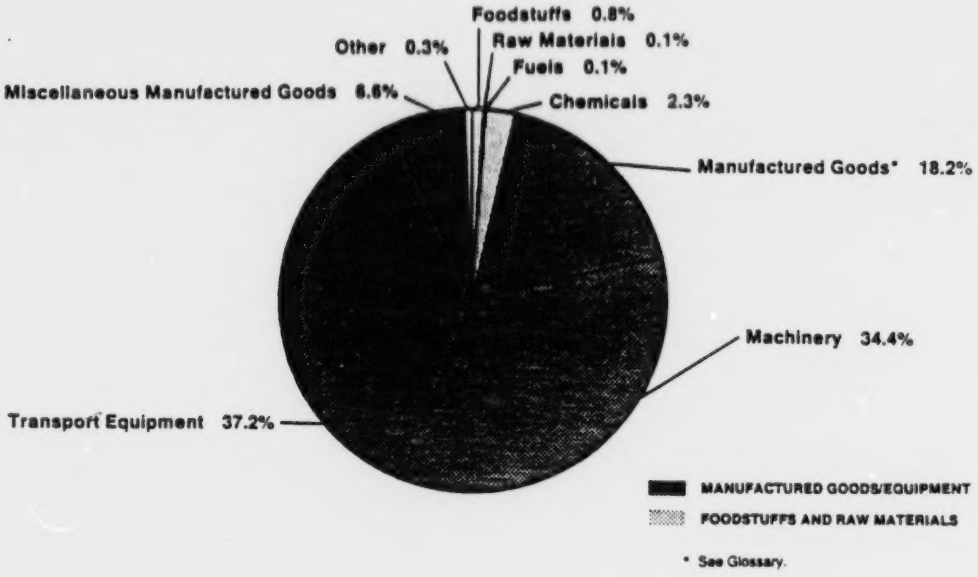
2. What percentage of goods consists of manufactured goods/equipment versus what percentage for non-manufactured goods/equipment?

3. Why doesn't the U.S. import many raw materials from Japan?

4. How would you characterize the nature of U.S. imports from Japan?

Source: U.S. Department of Commerce, Bureau of the Census, U.S. General Imports: World Area and Country by Schedule A Commodity Groupings

U.S. IMPORTS FROM JAPAN (1982)
Total: $35,930,193,076



Questions:

1. What is the largest category of imports from Japan to the U.S.? TRANSPORT EQUIPMENT: 37.2%. WHY? THIS IS WHAT JAPAN IS GOOD AT PRODUCING AND THE U.S. CONSUMERS NEED/WANT THESE KINDS OF GOODS. A NEED WHICH HAS NOT BEEN SATISFIED BY AMERICAN MANUFACTURERS OF TRANSPORT EQUIPMENT.

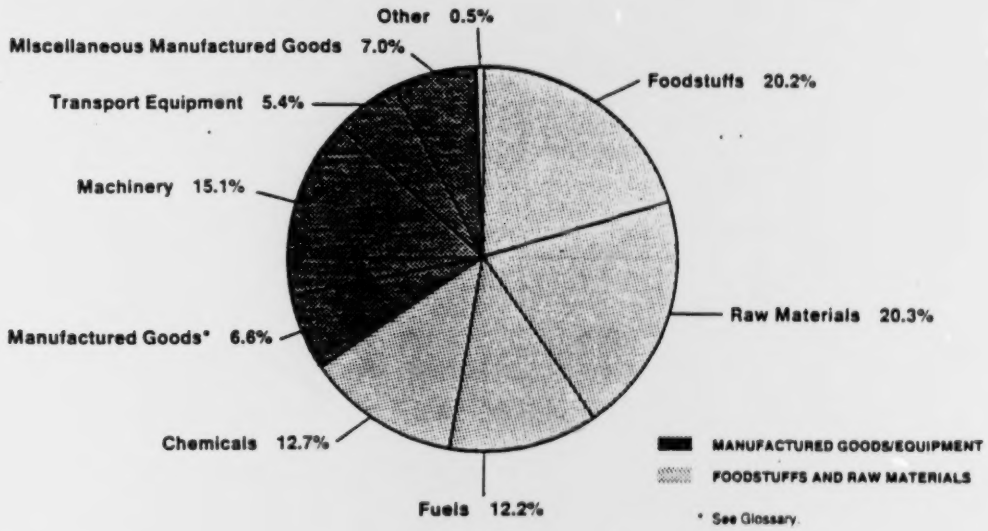
2. What percentage of goods consists of manufactured goods/equipment versus what percentage for non-manufactured goods/equipment? 96.4% vs. 3.3% (.3% other).

3. Why doesn't the U.S. import many raw materials from Japan? BEING A RESOURCE-POOR COUNTRY, JAPAN DOESN'T HAVE THE RAW MATERIALS TO EXPORT; IN FACT, JAPAN ITSELF NEEDS RAW MATERIALS. FURTHERMORE, THE U.S. STILL POSSESSES COMPARATIVELY GREAT AMOUNTS OF RAW MATERIALS.

4. How would you characterize the nature of U.S. imports from Japan? MOSTLY MANUFACTURED GOODS--FINISHED PRODUCTS, INSTEAD OF THE RAW MATERIALS NEEDED TO MANUFACTURE GOODS.

Source: U.S. Department of Commerce, Bureau of the Census, U.S. General Imports: World Area and Country by Schedule A Commodity Groupings

U.S. EXPORTS TO JAPAN (1982)
Total: $19,989,057,344



Questions:

1. What is the largest category of exports from the U.S. to Japan?

2. What percentage of the total is exports of Transport Equipment? How does this compare to the percentage of U.S. imports from Japan for this category? (See Handout #9 on the preceding page.)

3. What percentage of goods consists of non-manufactured goods/equipment versus what percentage for manufactured goods/equipment?

4. How would you characterize the nature of U.S. exports to Japan?

5. Comparing your answer to #4 above and the answer to question #4 on the preceding page (Handout #9), what can you say about the overall nature of U.S. trade patterns with Japan?

6. What is the difference between the total dollar amount of 1982 U.S. exports to Japan versus imports from Japan?

7. In what ways are Japan and the U.S. interdependent?

Source: U.S. Department of Commerce, Bureau of the Census, U.S. General Exports: World Area and Country by Schedule E Commodity Groupings

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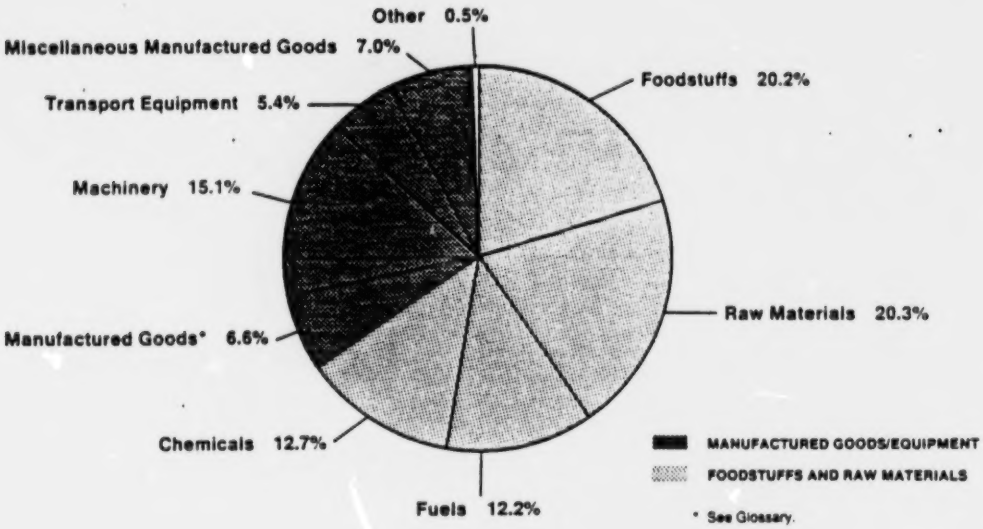
U.S. EXPORTS TO JAPAN (1982)
Total: $19,989,057,344



Questions:

1. What is the largest category of U.S. exports to Japan? RAW MATERIALS

2. What percentage of the total is exports of Transport Equipment? 5.4% How does this compare to the percentage of U.S. imports from Japan for this category? IT IS MUCH SMALLER. THE PERCENTAGE OF U.S. IMPORTS OF TRANSPORT EQUIPMENT FROM JAPAN IS 37.2%.

3. What percentage of goods consists of non-manufactured goods/equipment vs. that of manufactured goods/equipment? 65.4% vs. 34.1% (+.5% other).

4. How would you characterize the nature of U.S. exports to Japan? GENERALLY SPEAKING, RAW MATERIALS AND FOOD ARE EXPORTED.

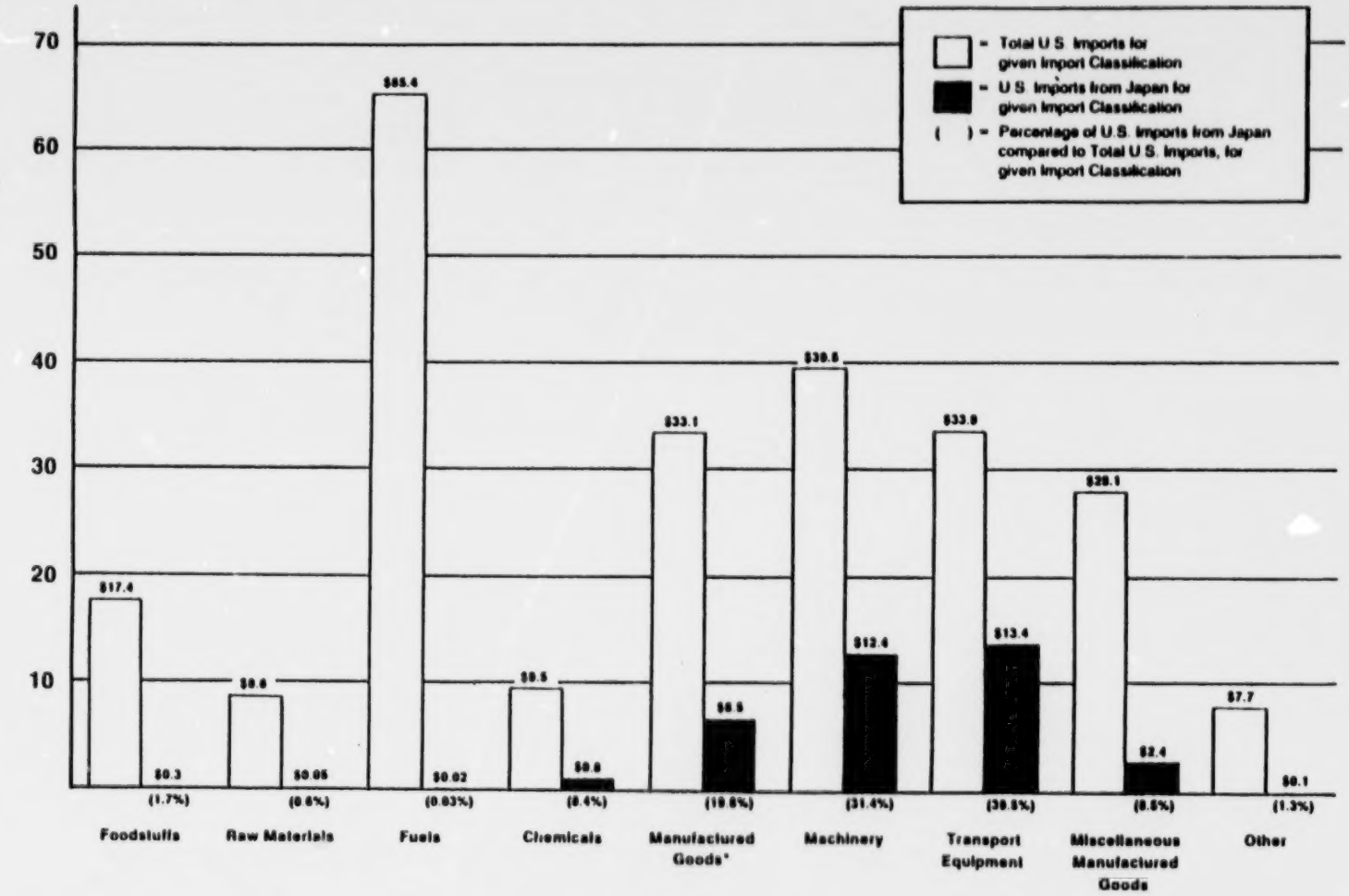
5. Comparing your answer to #4 above and the answer to question #4 on the preceding page (Handout #9), what can you say about the overall nature of U.S. trade patterns with Japan? THE U.S. TENDS TO EXPORT RAW MATERIALS AND TO IMPORT FINISHED PRODUCTS.

6. What is the difference between the total dollar amount of 1982 U.S. exports to Japan versus imports from Japan? APPROXIMATELY $20 BILLION IN EXPORTS VS. $35.9 BILLION IN IMPORTS, GIVING THE U.S. A NEGATIVE BALANCE OF TRADE WITH JAPAN FOR 1982. ($35.9 - $20 = $15.9)

Source: U.S. Department of Commerce, Bureau of the Census, U.S. General Exports: World Area and Country by Schedule E Commodity Groupings

Handout #11
(1 of 2)

U.S. IMPORTS FROM ALL COUNTRIES (1982)
Total: $243,141,270,286



* See Glossary

46

47

U.S. IMPORTS FROM ALL COUNTRIES (1982)
Total: $243,141,270,286

Questions:

1. What was the largest category of imports into the U.S. in 1982, and at what cost?

2. What was the smallest category of U.S. imports from the rest of the world in 1982?

3. What percentage of imported transport equipment came from Japan, and at what cost?

4. What percentage of imported machinery came from Japan?

5. Including the "other" category of imports classification, what was the total dollar amount imported by the U.S. from all nations of non-manufactured goods?

6. What was the total dollar amount of manufactured goods imported from all nations?

7. Comparing your answers to questions #5 and 6 above, which was greater: U.S. imports of manufactured or non-manufactured goods? By how much?

Answer Key for Handout #11

U.S. IMPORTS FROM ALL COUNTRIES (1982)
Total: $243,141,270,286

Answers:

1. FUELS AT $65.4 BILLION FOR 1982—THIS MEANS THE U.S. SPENT $65.4 BILLION ON IMPORTED FUELS, MOSTLY FROM THE MIDDLE EAST.

2. NON-FUEL RAW MATERIALS

3. 39.5% AT $13.4 BILLION

4. 31.4% AT $12.4 BILLION

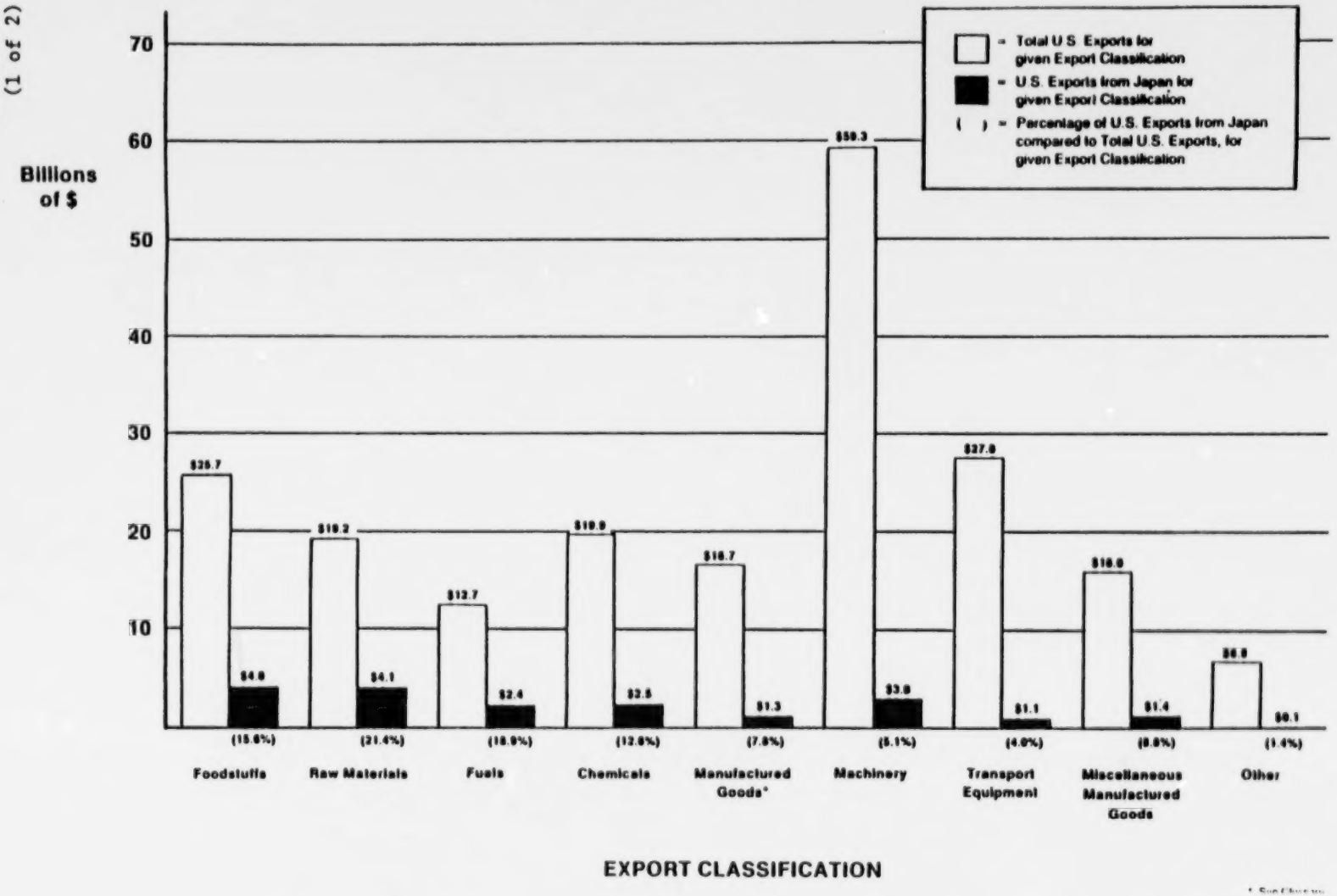
5. BILLION

6. $134.6 BILLION

7. MANUFACTURED GOODS. GREATER BY $26 BILLION.

Handout #12
(1 of 2)

U.S. EXPORTS TO ALL COUNTRIES (1982)
Total: $204,313,128,269



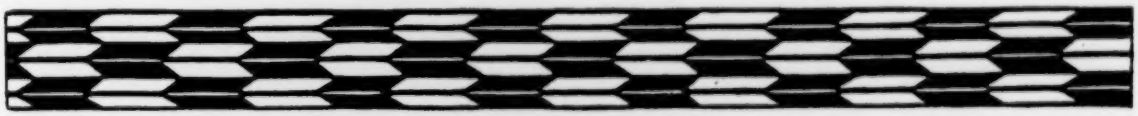
U.S. EXPORTS TO ALL COUNTRIES (1982)
Total: $204,313,128,289

Questions:

1. What is the largest category of exports from the U.S. to all other nations? At what cost?

2. What is the smallest category of U.S. exports to the rest of the world?

3. What category of exports to Japan is largest in terms of dollar amounts?



Answer Key to Handout #12

U.S. EXPORTS TO ALL COUNTRIES (1982)
Total: $204,313,128,289

Questions:

1. MACHINERY. $59.3 BILLION

2. FUELS AT $12.7 BILLION

3. RAW MATERIALS AT $4.1 BILLION

HOW DOES INTERNATIONAL TRADE WORK?

Introduction

The purpose of this problem-solving exercise is to get students to think about what is involved in international trade, so that it is more tangible to them. The class is broken into teams that must import a shipment of Sony Walkmans from Japan, or to export a load of California oranges. In other words, they are to role-play the steps taken by a U.S. audio store owner or grower in importing or exporting a product.

Note that the outlines of import (pp. 48-49) and export steps (pp. 50-51) are simplified and general. That is, they do not catch the complexities of trading certain goods. For example, an audio store owner probably gets his/her Sony Walkmans from a distributor who, in turn, gets them from Sony's U.S. importer. Likewise, the California grower probably sells his/her products to an export cooperative, which handles the details of the transaction. Agricultural inspections probably would also be a key factor.

For the purposes of this exercise, however, students are to assume that they have to handle everything themselves.

Objectives

- to encourage students to think concretely and realistically about the mechanics of international trade (importing and exporting);
- to provide a simulated trading experience;
- to develop skills related to working in small groups;
- to consider the range of jobs involved in international trade.

Time

One class period

Materials

Handout #13, "Role Play of International Trader (Importer or Exporter)" (One copy per group)
Handout #14, "Import Steps & Export Steps" (Classroom sets recommended)
Handout #15, "Checking Comprehension"

Procedure

1. Divide the class into small groups (4-6) after explaining that students will be placed in the role of importers or exporters (whichever you choose) of a certain product from or to Japan.

2. Pass out one copy of Handout #13 to each group. Tell each group to appoint a recorder to list the steps involved in importing or exporting.

3. After each group outlines the steps they would follow, discuss the differences in various groups' answers and try to arrive at an agreed-upon order of steps.

4. Pass out Handout #14, which is the answer key to Handout #13. Have each group compare their answers to the recommended sequence of steps.

5. To reinforce the detailed information given under each step ("research supplier," "contact supplier," etc.), assign the comprehension questions in Handout #15. These may be handled in class, each group being assigned one or two of the 10 steps and the corresponding question. Alternately, the 10 questions may be assigned for homework.

Follow Up

Other questions which may be discussed in class are:

1. What problems may occur if you and your supplier don't understand each others' languages? IT MAY BE DIFFICULT TO CONTACT YOUR SUPPLIER OR NEGOTIATE A CONTRACT WITH HIM OR HER. POSSIBLE SOLUTIONS INCLUDE USING AN INTERPRETER AND LEARNING THE SUPPLIER'S LANGUAGE.

2. What other possible problem areas can you think of besides different languages? Remember you and your supplier are in different countri
   a) DIFFERENT CUSTOMS OF DOING BUSINESS, I.E.: HANDSHAKE (U.S.) VERSUS BOWING (JAPAN).
   b) DIFFERENT LAWS AND GOVERNMENT REGULATIONS FOR EXPORTS AND IMPORTS.
   c) DIFFERENT HOLIDAYS AND VACATION PERIODS, DURING WHICH WORK MUST STOP. EVEN DIFFERENT SEASONS IN SOME CASES, I.E., IT IS SUMMER IN AUSTRALIA OR SOUTH AMERICA WHEN IT IS WINTER IN THE U.S.

3. How might the steps for exporting compare to the procedures for importing Sony Walkmans? NEARLY THE SAME PROCEDURES ARE FOLLOWED, EXCEPT FROM THE OPPOSITE VIEWPOINT.

Evaluation

1. To test students' understanding of the procedures involved in importing/exporting, have them trace the steps used in the process opposite what they did in class. (Alternatively, students might complete a series of drawings to illustrate the process. Sample illustrations for importing are found in Handout #14 on pp. 48-51.)

HOW DOES INTERNATIONAL TRADE WORK?

Role Play: The International Trader

Introduction

In this role play, your group plays the role of importer or exporter of goods (your teacher will assign roles and the product to be traded). It is designed to give you an idea of how goods, from Sony Walkmans to California cotton, are traded among nations.

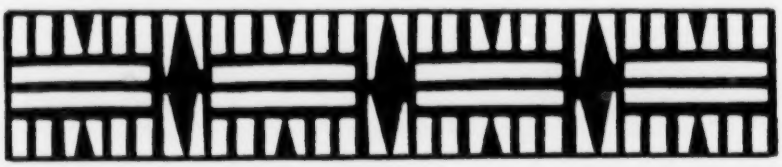
Directions

Your job is to import/export from/to Japan, tracing the steps involved in moving the goods from one country to the other. After discussing as a group all the steps involved in exporting/importing your commodity (good, product), write the steps on the back of this paper.

Remember to be as complete as possible, taking into account where you would get money to finance the trade, what you might need to do to protect yourselves from losing money, how you would find someone to trade with, etc.

Assume that the good you want to import/export is a finished product. If it's cotton, it has already been picked and packaged, ready for shipment. (Hint: It first needs to be picked up from your fields.) If you are assigned the task of importing the Walkmans, assume that they are packaged and ready to go at the Sony factory in Japan.

Since this is a group effort, everyone is expected to participate, although only one person needs to write your answers (steps) down for the group.



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IMPORT STEPS OUTLINE

1. Research Supplier. Who supplies the good we wish to import? How do we track down who is selling what we need? Two commonly used methods are:

   a. trade directories--these are books that list manufacturers and suppliers of various goods;

   b. contact other business people who may know how to find the supplier, and ask for references/introduction to that supplier.

2. Contact Supplier. We must let the supplier know that we want to buy his or her product. Three commonly used methods are:

   a. telephone;

   b. write a letter;

   c. send a telex message.

3. Negotiate Terms & Sign Contract. We need to negotiate (bargain) with the supplier to agree on the "terms of sale"--price, method of payment (cash, check, or other methods), when payment is due, when and where we can have the goods, etc. Usually both we (the buyer) and the supplier will want a written contract stating all these terms. We might hire a lawyer to help negotiate and write the contract, especially if it is complex.

4. Financing & Foreign Exchange. Usually, financing means some form of debt or loan. In the case of an import, the supplier may want to have us pay for the goods right away. But it is possible that we don't have enough money yet. For example, imagine that we, as an audio store owner, might not have enough money to pay the supplier until we have already imported the Sony Walkmans and sold them to our customers here. If we must pay the supplier before we have received the money from selling the Walkmans in our store, sometimes we can arrange with a bank to "finance" our import. In other words, the bank will extend to us a kind of loan. (There are a number of special financing methods for imports.) We can use the money from this financing to pay our supplier. Of course, sometime in the future we must repay the bank, with interest.

   Another service the bank can provide us is called foreign exchange. For example, when we buy a Walkman from Sony in Japan, Sony might request that we pay in Japanese currency (money), called "yen" (¥, pronounced "en" in Japanese). But what do we do if we have only U.S. dollars ($)? A bank can give us Japanese yen in exchange for our U.S. dollars, so that we can pay our Japanese supplier in yen. This exchange of different countries' currencies is called foreign exchange.

5. Insurance. We might be worried that something could go wrong with our import, something that would destroy the goods or cause damage to them. This could be a disaster such as flood, fire, or earthquake, or some other kind of accident. The boxes holding our Sony Walkmans could fall off a forklift or truck and be damaged or destroyed, for instance. But we can arrange for insurance by paying a fee (called a premium) to an insurance company ahead of time. Then, if our goods are damaged or lost, the insurance company will repay us for the value of the loss or damage.

6. Inland Transportation (Supplier's Side). Next, we need to move our goods from the supplier's factory to the warehouse at the airport or shipping port from which the goods will leave the supplier's country. We do this by arranging for the goods to be carried by truck or train.

7. Export Processing (Supplier's Side). At the airport or seaport in the supplier's country, various papers must be prepared and processed in order to keep track of our goods. (Remember that thousands of other goods come into and out of this port every day!) Also, the government of the exporting country usually requires certain papers so they can record information about that country's exports. Finally, our goods must be unloaded from the warehouse at the dock or airport onto a ship or plane.

8. Shipping (Supplier's Side). We must arrange to have the goods sent from the supplier's country to a U.S. port or airport near us. Usually air or sea shipment is used. Airfreight is faster (usually one day), but it is only suitable for shipping small, light goods, because air freight charges for heavy items are expensive. Shipment by ocean vessel takes longer (about two weeks from Japan to the U.S.), but this is cheaper for larger, heavier goods. For example, if you were importing only a few Sony Walkmans you would probably use air shipment. If you were importing 1000, probably sea shipment would be cheaper.

9. Import Processing (Importer's Side). When the goods arrive at the airport or ocean port in the U.S., they are unloaded at the dock. Also, there is more paperwork processing. Part of the paperwork is to keep track of our goods amongst all the other goods being unloaded at the port. Another part of the paperwork is to report our import to the United States Customs Service. They are responsible for reporting to the U.S. government the types, quantity, and value of imports coming into and exports going out of this country. The Customs Service is also responsible for collecting a kind of tax on certain imports, called a customs duty or tariff. Since we are the importer we pay this tariff to the U.S. government.

10. Inland Transportation (Importer's Side). Finally, we need to get the goods from the port to our place of business (our audio store, in the case of the Sony Walkmans). We can do this by hiring a trucking company, or by arranging to have the goods delivered to us by train. (In the case of the Sony Walkmans, we would probably have them trucked to us from the Port of Oakland, where they had arrived by ship.)

EXPORT STEPS OUTLINE

1. Research Customer. We must find out who would be interested in buying the goods that we want to export. Two commonly used methods are:

   a. trade directories--books that list buyers and users of various goods (as well as manufacturers and suppliers);

   b. contact other business people, who may know how to find a buyer company.

2. Contact Customer. We must let the customer company know that we wish to sell our product to them. Four commonly used methods are:

   a. telephone;

   b. letter;

   c. telex message;

   d. salesperson's visit to the company.

3. Negotiate Terms & Sign Contract. We need to negotiate (bargain) with the customer to agree on the "terms of sale"--price, method of payment, when payment is due, when and where we must deliver the goods to the customer, and so on. Usually both we (the supplier) and the buyer (the customer company) will want a written contract stating all these terms. Sometimes we might employ a lawyer to help negotiate and write the contract, especially if it is very complex.

4. Financing & Foreign Exchange. Financing (usually some form of debt or loan) might be necessary in our export transaction. For example, perhaps we have to pay our own expenses right away but we don't have enough money yet, because our customer will not pay us until after we deliver the goods to them. If this happens, sometimes we can get a loan of money from a bank. This is called financing the export. (There are special financing methods for exports, other than loans.) Of course, sometime in the future we must repay the bank, with interest.

   Another service the bank can provide us is called foreign exchange. For example, when we sell our California oranges to a customer company in Japan, the customer might want to pay us in Japanese currency (money), called "yen" (¥, pronounced "en" in Japanese). But we can't use yen in the United States, because in the U.S. we use the U.S. currency, dollars ($). A bank, however, will give us U.S. dollars in exchange for the Japanese yen; this exchange of different countries' currencies is called foreign exchange.

5. Insurance. We might be worried that something could go wrong with our export—something that would destroy the goods or damage them. This could be a disaster such as flood, fire, earthquake, a ship sinking, or some other kind of accident. For example, the boxes holding our California oranges could fall off a truck or a forklift and be crushed. But we can arrange for insurance by paying an insurance premium (a fee) to an insurance company ahead of time. Then, if our goods are damaged or lost, the insurance company will reimburse us for their value.

6. Inland Transportation (Exporter's/Supplier's Side). Next, we need to move our goods from our production area (our orange grove, for instance) to the airport or seaport from which we intend to ship them to the customer's country. For example, we might send our load of oranges to the seaport by truck or train.

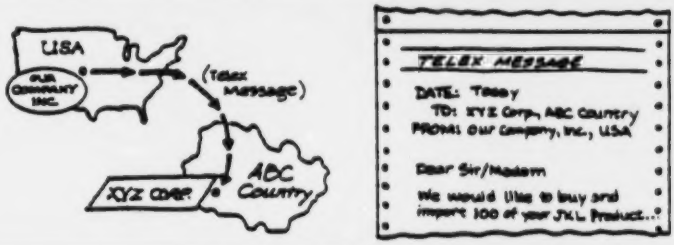
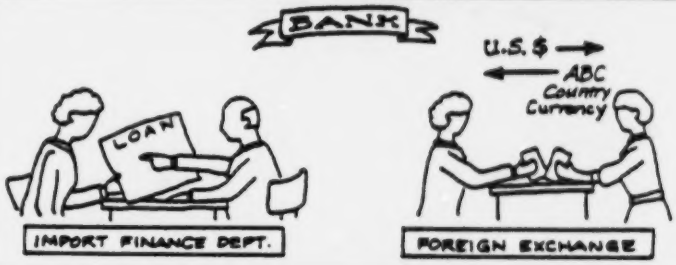
7. Export Processing (Supplier's Side). At the airport or seaport, various papers must be prepared and processed in order to keep track of our goods. (Remember that thousands of other goods come into and out of this port every day!) Also, the U.S. government requires certain papers (called an "export declaration") so our country can keep records of all U.S. exports. Finally, our goods must be loaded onto a ship or plane.

8. Shipping (Exporter's Side). Next, we must arrange to send the goods to our customer's country. Usually air or sea shipment is used. The airplane is faster, but it is only suitable for smaller, lighter shipments, because air freight charges for heavy shipments are very expensive. Shipment by ocean vessel (ship) takes longer (several weeks from the U.S. to Japan), but this is relatively cheaper for larger, heavier goods. Question: If you were exporting only a few dozen oranges, would you use air or sea shipment? If you were exporting 1,000 crates of oranges?

9. Import Processing (Customer's Side). When the goods arrive at the airport or seaport in the customer's country, there will be more paperwork. Part of the paperwork will keep track of our goods among all the other goods coming into that port. Another part of the paperwork is to report our export to the government of the customer's country. That government may also charge a tax, called an import duty or tariff, on the goods. Also, we need to have our goods unloaded from the plane or ship.

10. Inland Transportation (Customer's Side). Finally, we need to deliver the goods from the port to the customer company's place of business. We can do this by hiring a trucking company or by arranging to have the goods delivered by train.

IMPORT STEPS OUTLINE

1 RESEARCH SUPPLIER	
2 CONTACT SUPPLIER	 USA OUR COMPANY INC. (Telex Message) XYZ CORP. ABC Country TELEX MESSAGE DATE: Today TO: XYZ Corp, ABC Country FROM: Our Company, Inc., USA Dear Sir/Madam We would like to buy and import 100 of your JKL Product...
3 NEGOTIATE TERMS & SIGN CONTRACT	
4 FINANCING & FOREIGN EXCHANGE	
5 INSURANCE	INSURANCE COMPANY INSUR. POLICY INSURANCE POLICY We, The Insurance Co. will pay Our Company Inc. for the value of any accidental damage to its import of JKL Products...

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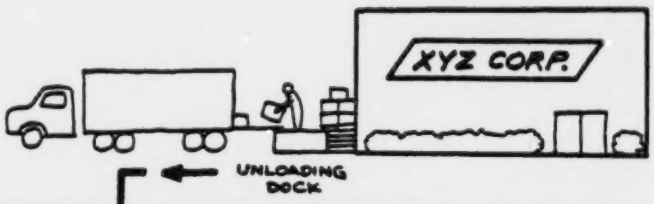
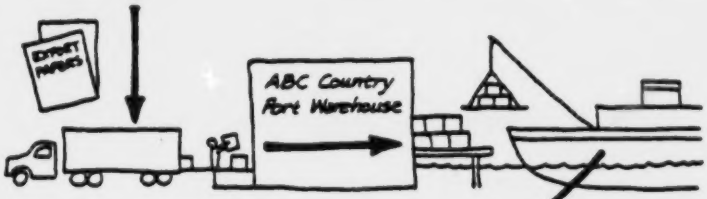
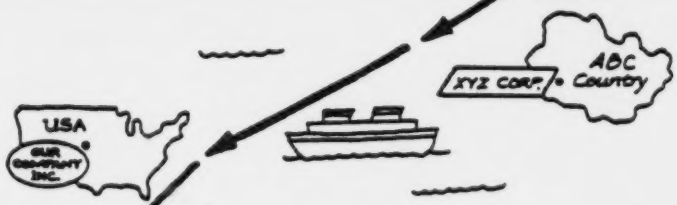
6 INLAND TRANSPORTATION (SUPPLIER'S SIDE)



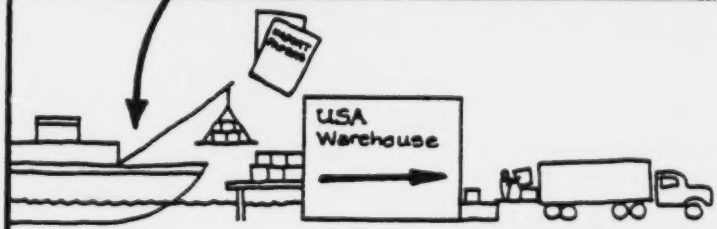
7 EXPORT PROCESSING
(a) Paperwork
(b) Loading JKL Products onto ship



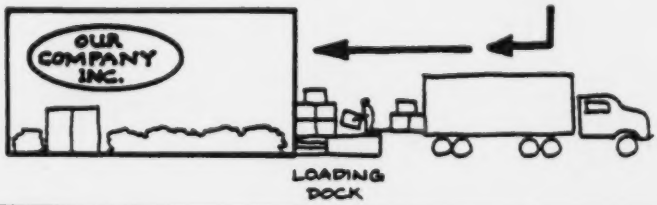
8 SHIPPING



9 IMPORT PROCESSING
(a) Paperwork
(b) Unloading JKL Products from ship



10 INLAND TRANSPORTATION (IMPORTER'S SIDE)



CHECKING COMPREHENSION

1. What are two ways to find out who sells a particular good?_____

2. What is a "telex?" What are two other ways to contact a supplier?_____

3. What decisions are involved in the "Terms of Sale?"_____

4. What are two services a bank can provide a company that wants to import/export?_____

5. Why would you need to pay insurance premiums (fees) before exporting or importing?_____

6. What is the "suppliers' side?"_____

7. What are the two purposes for processing exports/imports?_____

8. How long does it take to ship by air to/from Japan versus by ship? In what case would you use air freight instead of sea freight?_____

9. What is the purpose of the U.S. Customs Service?_____

10. What are the two most common methods of transportation of goods within the U.S.?_____

CHECKING COMPREHENSION

1. What are two ways to find out who sells a particular good? TRADE DIRECTORIES AND BUSINESS CONTACTS
2. What is a "telex?" What are two other ways to contact a supplier? A TELEX IS A MACHINE WHICH TRANSMITS WRITTEN MESSAGES ACROSS THE WORLD IN LESS THAN FIVE MINUTES. TWO OTHER WAYS TO CONTACT A SUPPLIER ARE TELEPHONE AND LETTER.
3. What decisions are involved in the "Terms of Sale?" PRICE, METHOD OF PAYMENT, WHEN PAYMENT IS DUE, WHERE AND WHEN THE GOODS WILL BE DELIVERED, AND SO ON.
4. What are two services a bank can provide a company that wants to import/export? FINANCING (LOAN) AND FOREIGN EXCHANGE (THE EXCHANGE OF ONE NATION'S CURRENCY FOR ANOTHER).
5. Why would you need to pay insurance premiums (fees) before exporting or importing? TO PROTECT YOUR INVESTMENT FROM UNPREDICTABLE CIRCUMSTANCES.
6. What is the "suppliers' side?" THE COMPANY WHICH IS SELLING THE GOODS.
7. What are the two purposes for processing exports/imports? TO MAKE SURE THAT THE INFORMATION REGARDING WHAT IS BEING SHIPPED IS CORRECT, AND TO GIVE THE GOVERNMENT A CHANCE TO CHECK THE SHIPMENT TO MAKE SURE IT IS LEGAL.
8. How long does it take to ship by air to/from Japan versus by ship? ONE DAY VERSUS TWO WEEKS. In what case would you use air freight instead of sea freight? IF THE SHIPMENT IS LIGHTWEIGHT, EITHER BECAUSE IT IS SMALL OR BECAUSE THE ITEMS SHIPPED ARE LIGHT.
9. What is the purpose of the U.S. Custom Service? TO INSPECT, RECORD, PROCESS, AND REPORT ON GOODS FROM/TO OTHER COUNTRIES. THE CUSTOMS SERVICE ALSO COLLECTS DUTY (TARIFF, TAX) ON CERTAIN GOODS COMING INTO THE COUNTRY FROM ABROAD.
10. What are the two most common methods of transportation of goods within the U.S.? TRUCK AND TRAIN.

UNDERSTANDING PROTECTIONISM

This overall section deals with the following concepts and issues: a discussion of why nations trade, focusing on comparative advantage and specialization; information regarding barriers or inhibiting factors to trade; and a brief presentation on Japanese protectionism with a more in-depth look at current sources of friction in the U.S.-Japan economic relationship.

The section is intended to crystallize and extend many of the ideas presented in earlier parts of the unit. It also encourages critical thinking and reading by students.

Why Trade? An Introduction to Absolute and Comparative Advantage

Introduction

The following exercise gives students a simple example of how absolute and comparative advantage actually work, using two fictitious countries, "A" and "B". It is important to note that some economists feel that looking at the comparative and absolute advantages of two nations is not particularly useful in understanding the complex, multilateral world today. Rather, one must look at the global picture, including the distribution of gains from trade and the key issue of price determination. In addition, it is important to consider what countries would trade if they weren't influenced by government policies and actions such as granting subsidies to give an edge to certain industries.

Nevertheless, since secondary grade level economics textbooks do deal with the notion, and some economists still find the terms useful, an activity to illustrate the difference between comparative and absolute advantage is included below. The limited usefulness of the terms without understanding how the price of goods is determined must be recognized.

A final caveat: Although time is, strictly speaking, not a resource, it is used in the following example as a resource. The time-related resource is actually labor--the amount of work people do to produce something. Further, there are many resources which go into making any product. Therefore, the activity simplifies reality by only looking at "time" (labor).

Objectives

- to learn the main reasons why nations trade, including the notion of absolute versus comparative advantage;
- to practice using the concepts of absolute and comparative advantage.

Time

One class period

Materials

Handout #16, "Using the Concepts of Absolute and Comparative Advantage"

Procedure

1. Discuss the main reasons for trade found in Handout #16.

2. Read with students example #1 regarding absolute advantage and example #2 regarding comparative advantage. While you are reviewing the content, put the information comparing countries A and B on the board. Depending on the background of your students, you may want them to record the same information at their seats.

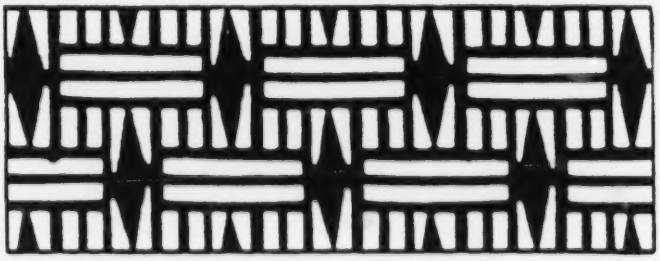
   Note: This activity may be best conducted in closed inquiry fashion. Questions are suggested throughout the exercise for teacher use.

Follow-Up

1. Have students choose two actual trading partners. They are to research the countries' characteristics such as endowments of various resources. Students then research their major exports to each other. Students should answer the question: "Do the two countries specialize in the production and export of the products for which they have a comparative and absolute advantage?" You may also want to discuss why a country might choose not to specialize (see the earlier discussion of possible reasons not to trade).

   Note: This is a good activity to have students work on in pairs. For example, each student might research a particular country and then share the information with her/his partner. Together they may then arrive at an answer to the above question.

2. For further reading for both teacher and student, see Chapter 16 ("International Trade") of Study of Economics--Principles, Concepts and Applications by Dr. Turley Mings (see bibliography for full citation).



UNDERSTANDING PROTECTIONISM

Why Trade? An Introduction to Absolute and Comparative Advantage

There are three main reasons for trade*:

1. People in one country may want a good that is not or cannot be produced in their own country. For example, in the U.S. we must import all our coffee because it could only be produced here under glass (i.e., in a greenhouse environment). Coffee needs a tropical climate such as that of parts of Latin America. Likewise, Japan must import all its fuel oil because it lacks natural resources such as petroleum deposits.
2. One country may be absolutely better at producing a good than any other country. If this is so, that country has an absolute advantage in producing that good, and other countries would do better to import it from the efficient-producer country, instead of trying to produce it themselves.
3. One country may be comparatively more efficient at producing a good. If so, it is sensible for other countries to import that good from the country which produces it comparatively most efficiently. This is called the theory of comparative advantage, which was developed by David Ricardo, an English economist, in 1817. Absolute and comparative advantage reflect the idea of specialization—nations producing those goods and services which their resources are best suited to produce.

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* Other reasons for trade include a wish to maintain economic and political ties with particular countries, and to ensure that other nations buy a particular country's goods in return for that country's purchasing goods from others.

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USING THE CONCEPTS OF ABSOLUTE AND COMPARATIVE ADVANTAGE

Example #1: Absolute Advantage

Suppose your class is divided up into two groups, representing 2 countries, A and B. Country A produces record albums very efficiently, but doesn't have the resources or know-how to produce stereo headsets efficiently. It takes Country A 2 hours to produce an album, but 7 hours to produce a headset.

The second group represents Country B, which is very inefficient at producing albums but very efficient at producing stereo headsets. It takes Country B 4 hours to produce an album, but only 3 hours to make a headset.

You can see that Country A has an "absolute advantage" in producing albums, while Country B has an "absolute advantage" in producing headsets. These are the products which each can produce absolutely more efficiently (using fewer resources, in this case, time) than the other. To convince yourself of this, review the summary table below:

	Time to Make One Album	Time to Make One Headset
Country A	2 hours	7 hours
Country B	4 hours	3 hours

Now, let us imagine that Country A and Country B each want to have one headset and one album. They decide to make them by working alone. Country A proceeds to make for itself one headset and one album. How much time does this take Country A? (9 hours total.) Meanwhile, Country B does the same thing. How much time does it take Country B to make one headset and one album? (7 hours.)

	Total Time to Make One Headset and One Album, By Working Alone
Country A	9 hours
Country B	7 hours

Now, suppose that the economic advisors for Countries A and B suggest what they call "specialization and trade." Each country would specialize in producing only the item in which it has an absolute advantage. Then, the countries can trade so that each still ends up with one headset and one album. The advisors claim that this will save time for both countries, thus improving efficiency.

Both countries then decide to give this a try. What item should Country A specialize in producing? [Albums, since this is the product in which it has an absolute advantage.] What good should Country B specialize in producing? [Headsets.]

How much time does it take for Country A to make 2 albums? (2 x 2 hours = 4 hours.) How long does it take for Country B to make 2 headsets? (2 x 3 hours = 6 hours.)

Now that each has completed its specialized production, they need to trade. First they must agree on a fair "price" for each good. The 2 countries decide it is fair to exchange one headset for one album. In other words, the "price" of one album is one headset, and vice versa.

Now, they trade. As agreed, they exchange at a "price" of one headset for one album. Country B gives one of its headsets to Country A in return for one of country A's albums. Now each country has one headset and one album.

How much time did each country spend in this case to get one headset and one album? We already saw that with specialized production, Country A worked 4 hours and Country B worked 6 hours to produce these goods. How does this compare with time spent when each worked alone to produce the goods? Were the economic advisors right?

Time to Get One Headset and One Album

	Working Alone	With Specialization and Trade
Country A	9 hours	4 hours
Country B	7 hours	6 hours

Did Country A require more or less time to get these goods when specializing and trading? (Less) What about Country B? (Country B also required less time to get these goods by specializing and trading.) Thus, Countries A and B were better off by specializing and trading rather than by working alone.

From this example you can see the benefits to countries which specialize in producing the good for which they have an absolute advantage and then trade with other countries. Doing so uses up fewer resources (in this case, time in hours worked). Because they are using fewer resources to get the same goods, their economies have become more efficient. The resources saved can be used to produce other goods and services for the people in these countries.

Example 2: Comparative Advantage

In the last example, Country A had an "absolute advantage" in producing albums, while Country B had an "absolute advantage" in producing stereo headsets. But what if one country had "absolute advantage" in both goods? For instance, suppose now that Country B produces both albums and headsets more efficiently than can Country C, as shown below.

	Time to Make One Album	Time to Make One Headset
Country B	4 hours	3 hours
Country C	5 hours	6 hours

From this you can see that, working alone, it takes Country C 11 hours to make a headset and an album, while Country B working alone can produce the same in only 7 hours.

You may be thinking that specialization and trade will do no good now that Country B has the absolute advantage in both products. Why should Country B trade with Country C when it is absolutely more efficient in producing both albums and headsets? But the economic advisors still insist that both countries can be helped by specialization and trade, under the theory of comparative advantage.

Although the leaders of Countries B and C are a bit skeptical, the advisors explain that each country should specialize in producing the good for which it has comparative advantage; that is, the good it can produce relatively more efficiently. For example, Country C's comparative advantage lies in producing albums, because it takes Country C only 5 hours to make one album, compared to 6 hours for a headset. Therefore, the advisors say, Country C should specialize in producing albums.

In which product does Country B's comparative advantage lie? (Headsets) Why? (It takes Country B only 3 hours to make a headset compared to 4 hours for one album.) In which product should Country B specialize? (Headsets)

Countries B and C decide to trust their advisors. They proceed to specialize and each produces 2 of the product in which it has a comparative advantage. How long does this take each country? (2 x 3 hours = 6 for Country B; 2 x 5 = 10 hours for Country C.) They then negotiate and agree that it would be fair to trade one headset for one album. What is the "price" of an album under these terms? (One album "costs" one headset.)

Now they trade. Country C exchanges one of its albums for one of Country B's headsets. Now each country has one headset and one album.

Did the advisors give good advice? Is each country better off? How could you decide? (Compare the resources [time] used to get the same goods while working alone or specializing and trading.)

Time to Get One Headset and One Album

	Working Alone	With Specialization and Trade
Country B	7 hours	6 hours
Country C	11 hours	10 hours

From this you can see that both countries are better off by specializing and trading because they used up fewer resources (time) than they did when working alone to produce the same goods. In other words, they improved their efficiency. And it seems the advisors were right, even though one country had the absolute advantage for both products. Specialization and trade aided both countries anyway because each country specialized in producing the good for which it had a comparative advantage.

Although these examples explaining absolute and comparative advantage used only 2 countries, 2 products, and 1 resource (time or labor), these theories can be shown to work in more complicated examples with many countries, many products, and many resources (labor, capital, and natural resources). Of course, the real world is the most complex example of all.

Every country has a somewhat different mix of land, natural resources, geography, climate, population, labor skills, education, technology, capital (money for investment in productive resources), and other factors which give it an absolute or comparative advantage in producing certain goods. Nations can benefit by specializing in their own goods of comparative or absolute advantage and then trading with other countries.

Suggested Exercise

Choose a country and research its characteristics and endowments of various resources. Then research its major exports. Does it appear to be specializing in the production and export of the products for which it has a comparative or absolute advantage?

(The above is adapted from Trees and TVs by Dr. Frank B. Brouillet [Olympia, Washington: State Superintendent of Public Instruction, 1979])

UNDERSTANDING PROTECTIONISM

What Inhibits Trade?

Objectives

- to realize some of the dangers of protectionism;
- to recognize the various types of trade barriers employed by nations to discourage free trade with them. Students should also be able to list seven barriers to trade or means of restricting imports; and,
- to prepare students for subsequent activites ("C" and "D") of this unit.

Time

Homework assignment and one class period or one class period of discussion

Materials

Handout #17, "What Inhibits Trade?"

Procedure

1. Have students read the information provided at home and come to class prepared to discuss the many types of trade barriers.

2. Alternatively, you may want to present this material in lecture format, followed by class discussion of the questions provided in the handout.

   Mention to students that this information is vital to understanding how nations conduct their international trade. Further, in order to understand specific cases of protectionism that will be presented later, they first need to know general information on "free" versus protected trade.

Follow-Up

1. If relevant, discuss student answers to the questions at the end of the readings.

2. For an excellent discussion of arguments for free trade versus protectionism, see Teaching Economics: Content and Strategies by Banaszak and Brennen (pp 234-235; see bibliography). The following summarizes points on both sides of the argument.

Arguments for Free Trade

a. Free trade promotes efficiency of production among nations.

b. Free trade leads to a feeling of goodwill among countries.

c. American industry really doesn't need to be protected any more, since our infant (new) industries have matured. This helps the American consumer by keeping prices lower than they would be if industries were protected from competition from abroad.

d. There is often danger of retaliation by countries which have experienced trade barriers.

Examples of free trade on a regional basis: European Economic Community (Common Market); trade among U.S. states.

Arguments for Protectionism

a. Protectionism is essential for national security; in order to be able to defend itself, the nation must be as self-sufficient as possible.

b. Infant industries must be sheltered in order to get off the ground.

c. Trade barriers encourage the exploration for and development of natural resources (especially those deemed necessary for self-defense).

d. Competition from abroad can have a negative impact on our standard of living. The main idea is that if one "buys American," U.S. workers would get jobs that otherwise would go to workers in other countries.

Note: Free trade advocates disagree with this argument by citing evidence which indicates the opposite effect. That is, free trade increases jobs in all countries concerned by raising the overall world volume of trade and demand for products. This doesn't mean, however, that workers' jobs aren't displaced in one country or another.

Evaluation

You may want to gauge student understanding of the materials by how they answer the questions posed at the end of the reading (Handout #17).

UNDERSTANDING PROTECTIONISM

What Inhibits Trade?

Protectionism refers to the practice of discouraging imports in order to protect domestic (home country) industries and the workers employed in these industries. For example, the U.S. auto industry has tried to get Congress to pass "local content" laws that would require all cars sold in the U.S. to contain up to 90% parts made in the U.S. Such a law, if it were passed, would severely curtail the ability of foreign manufacturers to sell their autos in this country. Note that protectionist measures also raise domestic prices for goods. The opposite notion of protectionism is "free trade:" international trade that is not restricted by governments placing protectionist measures on goods like the ones described below.

One danger of protectionist policies is that other countries may retaliate by passing their own regulations that discourage U.S. products from being imported into those countries. Such retaliation back and forth between countries can result in a "trade war" in which all countries involved may find that they are severely restricted from exporting many of their products. This can have a devastating effect on the economies of those countries. For example, many economists and historians believe that a world protectionist environment contributed to the Great Depression of the 1920s and 1930s.

There are a number of types of "barriers to trade" which governments can use to discourage imports. These barriers may be erected for economic reasons, as described above, or for political reasons. (An example of politically-motivated trade barriers would be U.S. restrictions on trade with communist nations.) Tariffs are the most obvious form of trade barrier. These are taxes on imports, collected by the government of the importing country. These tariffs, or "import duties," as they are also called, have the effect of making imports more expensive, thereby discouraging them.

In addition, there are many non-tariff trade barriers. A few of the most common are listed below:

A quota is a specific limit on the quantity of a certain good that may be imported. Once the specified quantity has been imported, all other would-be imports of that good are shut out of the importing country.

A voluntary trade restraint is an agreement by an exporting country to limit voluntarily the quantity of a certain good that the exporting country will export to another country. Usually this is the result of negotiations between the exporting country and the importing country governments. (In this aspect, these agreements are not truly "voluntary.")

An example of voluntary trade restraints is Japan's voluntary limitation on the number of Japanese autos exported to the U.S. The original 2-year agreement took effect in 1981 with the understanding that it could be extended for a third year (until March 1984), depending upon negotiations between the U.S. and Japanese governments. It was actually extended through March, 1985, and both countries show interest in extending the restraints beyond that date.

Export subsidies are another non-tariff trade barrier. An export subsidy is some form of financial support (a "subsidy") from the exporting country government to that country's manufacturers of the exported product. This allows these manufacturers to export their products at an artificially low price; the effect is to reduce the higher domestic price to meet the world price in order to permit or encourage exports. Then manufacturers in the importing country often find that they cannot compete against these artificially low prices of the imported item.

For example, California artichoke producers claim that the Spanish government gives special subsidies (financial advantages) to Spanish artichoke producers. This would make Spanish artichoke products imported into the U.S. cheaper than they might be without subsidies. California artichoke producers then find it difficult to sell their California artichoke products in the U.S. because the imported Spanish artichoke products are so much cheaper. (Note: The subsidies to Spanish artichoke producers are not the only reason for the low price of the Spanish artichoke products in the U.S. For further details on this example of export subsidies, refer to the article on p. 67, entitled "The Spanish Artichoke Ploy.")

In addition to these forms of non-tariff trade barriers, many others exist. For example, by imposing unusually strict or inconvenient inspection or licensing procedures for imported products, governments can discourage imports. Also, complicated "channels of distribution" (the chain of wholesalers, middlemen, and retailers through which a product must flow before it reaches the consumer) that are difficult for foreign importers to understand and/or penetrate can be barriers to trade. However, channels of distribution usually evolve in the domestic economy over time, and are not necessarily a trade barrier intentionally erected by the government. This is the case in Japan, for example.

Another example of non-tariff barriers would be "local content" laws such as the proposed U.S. legislation (described earlier) that would require all autos sold in the U.S. to contain a certain percentage of U.S. parts.

HENRY SCHACHT

The Spanish Artichoke Ploy

Add the artichoke growers to the list of those hurting from foreign competition.

Nine-tenths of the nation's artichokes are grown in California. Practically all of them come from the fields surrounding Castroville in Monterey County. The cool foggy climate there close to the sea is ideal for this thistle-like specialty crop.

Not only does Castroville bill itself as the "artichoke capital of the world," it also harbors the only remaining freezer and canner of artichoke products such as marinated hearts. Once, six plants did this sort of thing. Today there is only Artichoke Industries, Inc. — whereby hangs this tale of fierce foreign competition.

Artichoke Industries is owned largely by growers and shippers. They have been accustomed to sell about 80 percent of the crop to the fresh market and divert the rest to the plant for processing. When the fresh market was burdened by overly heavy supplies, they could shift the excess to the plant and process them for sale later. It helped to make for a stable industry.

Last fiscal year the plant turned out 8.4 million pounds of finished artichoke products. At the height of the pack season it employed more than 600 workers. The combined plant payroll and payments to growers added up to $4.4 million. This may not be the big time — no General Motors or Ford — but in little Castroville with a population of 4000 it is the biggest game in town.

For years past, U.S.-packed artichokes have had to contend in the marketplace with competition from Spanish marinated and canned artichoke products. Spanish packers have had help from their government through tax breaks and preferential financing.

That was not so bad, but in July, 1981, Spain devalued the peseta. The dollar, which had previously been worth 70 pesetas, was suddenly worth 112. That made Spanish products an extra-good buy. They were offered here at prices roughly 15 percent lower than Artichoke Industries was quoting to its customers. The difference came to around $1 per case.

With that kind of margin it was easily predictable that Spanish artichoke products would be imported in larger quantities. In 1982 imports doubled over the previous year. Sales of California artichoke products dropped off sharply. Artichoke Industries had to cut prices in order to compete. The company says that recent price levels have dropped below the cost of production.

Now comes the latest development which led Congressman Leon Panetta, whose district includes Castroville, to express "outrage" to Ambassador William Brock, the United States Trade Representative. Panetta was not alone; 31 other members of the California delegation in the House of Representatives joined him.

Their ire was aroused when Brock's staff proposed to placate Spain for an increase in the U.S. tariff on cookware by slashing 30 percent off the duty on Spanish artichoke products. Such a cut, Artichoke Industries holds, would just about ring down the curtain on Castroville.

from: San Francisco Chronicle
February 10, 1983

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CHECKING COMPREHENSION

1. What is "local content" legislation? _____

2. What is one danger of protectionism? _____

3. Name seven "barriers to trade" mentioned in the reading. _____

4. In what way are "voluntary trade restraints" not voluntary?

5. What is a government export subsidy and what is its purpose? Describe one example of a government subsidy and the impact it had on another country's product.

6. If you were a government decision-maker, in what cases (if any) would you favor protectionist legislation? What might be the impact of your decision on your own country and on your country's trading partner(s) affected by the laws?

CHECKING COMPREHENSION

1. What is "local content" legislation? LAWS WHEREBY ALL CARS (OR ANY OTHER PRODUCT) MUST CONTAIN A CERTAIN PERCENTAGE OF PARTS MADE IN THE COUNTRY OF THAT LAW. THE IDEA BEHIND THE LEGISLATION IS THAT OF PROTECTIONISM—DISCOURAGING IMPORTS IN ORDER TO PROTECT DOMESTIC INDUSTRIES AND WORKERS.

2. What is one danger of protectionism? ONE DANGER OF PROTECTIONISM IS THAT OTHER COUNTRIES MAY APPLY THE SAME POLICIES TOWARD OTHERS, THEREBY RUNNING THE RISK OF A "TRADE WAR" WHERE COUNTRIES ARE VERY LIMITED IN WHERE THEY EXPORT THEIR PRODUCTS.

3. Name seven "barriers to trade" mentioned in the reading.

   1) TARIFFS (TAXES ON IMPORT)

   2) QUOTAS (LIMITS ON QUANTITY IMPORTED)

   3) VOLUNTARY TRADE RESTRAINTS—AGREEMENTS BY AN EXPORTING COUNTRY TO LIMIT THE AMOUNT OF A CERTAIN GOOD TO BE EXPORTED TO ANOTHER COUNTRY

   4) EXPORT SUBSIDY—FINANCIAL HELP GIVEN BY THE GOVERNMENT OF THE EXPORTING COUNTRY TO A PRODUCER (MANUFACTURER) IN ORDER TO LET IT EXPORT ITS PRODUCT AT AN ARTIFICIALLY LOW PRICE

   5) STRICT OR INCONVENIENT INSPECTION OR LICENSING PROCEDURES

   6) COMPLICATED WAYS TO DISTRIBUTE GOODS WITHIN A COUNTRY THAT WOULD BE ESPECIALLY HARD FOR A FOREIGN IMPORTER TO UNDERSTAND

   7) "LOCAL CONTENT" LAWS (ALREADY DESCRIBED)—FOR EXAMPLE, PROPOSED LAWS IN THE U.S. DESIGNED TO LIMIT THE NUMBER OF FOREIGN CARS IMPORTED INTO THE U.S.

4. In what way are "voluntary trade restraints" not voluntary?

THEY ARE NOT VOLUNTARY IN THE SENSE THAT THE FOREIGN COMPANY HOLDING BACK ON EXPORTING ITS PRODUCTS IS DOING SO AT THE WISHES OF THE OTHER COUNTRY'S GOVERNMENT. THE EXPORTING COMPANY USUALLY FEELS IT HAS NO OTHER CHOICE, SINCE ITS GOVERNMENT HAS NEGOTIATED WITH THE OTHER NATION'S GOVERNMENT AND THE COMPANY MUST ABIDE BY THEIR RECOMMENDATIONS.

5. What is a government export subsidy and what is its purpose? Describe one example of a government subsidy and the impact it had on another country's product. A GOVERNMENT EXPORT SUBSIDY IS FINANCIAL HELP TO A PRODUCER (FOR EXPORT), WHICH ALLOWS THAT COMPANY TO CHARGE AN ARTIFICIALLY LOW PRICE FOR ITS PRODUCT. ITS PURPOSE IS TO ENCOURAGE EXPORTS. ONE EXAMPLE IS THAT OF THE SPANISH ARTICHOKES, THE IMPACT OF WHICH WAS TO SEVERELY HURT THE DOMESTIC (U.S.) ARTICHOKE BUSINESS.

6. If you were a government decision-maker, in what cases (if any) would you favor protectionist legislation? What might be the impact of your decision on your own country and on your country's trading partner(s) affected by the laws? NOTE: THIS QUESTION ASKS STUDENTS' OPINIONS, SO NO ANSWER HAS BEEN PROVIDED.

UNDERSTANDING PROTECTIONISM

Beef and Oranges: A Case Study in U.S.-Japan Trade Negotiation

Objectives

- to help students identify, through use of a case study, two perspectives on a trade-related issue. They will then evaluate which side they feel has a stronger argument;
- to encourage critical thinking on an issue of significance both in an economic and political (U.S.-Japan relations) sense;
- to present an actual case which has been resolved between two nations;
- to set a larger context in which students will realize that similar disputes between two countries have less long-term significance than the overall pattern of trade and cooperation among nations.

Time

Homework assignment and one class period

Materials

Handout #18, "Protection Japanese Style"
Handout #19, "Beef and Oranges: A Case Study in U.S.-Japan Trade Negotiation"

Procedure

1. Have students read for homework Handout #18, "Protection Japanese Style" as preparation for looking at an actual case of trade friction between Japan and the U.S. that has been resolved. You may want to have them answer questions ("For Thought") at the end of the reading. The questions would also be excellent discussion topics in small groups or as a class.

2. Introduce Handout #19, "Beef and Oranges: A Case Study in U.S.-Japan Trade Negotiation." The reading is in three parts: the first part outlines the problem; the second part discusses the accord that was reached; and the final section describes trade issues still outstanding between the U.S. and Japan. Please note that the balance of trade issue briefly discussed in the reading is more thoroughly covered in the TJP teaching unit entitled The U.S.-Japan Balance of Trade/Payments in a Global Context.

3. Have students answer the questions at the end of the article.

Follow-Up

1. For futher illustrations of protectionism and comparative advantage, consult Latin America: Micro-electronics Link (Latin America Project/ SPICE) and International Trade: A Case Study of the United States and Taiwan (China Project/SPICE).

2. Ask students to find out how a third country viewed this case. Australia, since it is also a big trading partner of Japan which desires to export more beef to Japan, would be a good choice. Contact the local Australian Consulate.

3. Have students research other examples of trade friction between countries and how they were resolved. This requires careful reading of newspapers, magazines, and other sources of current events. Perhaps a bulletin board or scrapbook could be kept on current trade issues, where the emphasis is to identify multiple perspectives on the dispute and try to resolve it.

4. Related to the above idea, ask students to individually keep a notebook of news clippings regarding U.S.-Japan economic issues. Again, the emphasis should be on identifying perspectives and (possible) solutions, not on which country is "right" or "wrong." You may want to have students consult Japan's Economy and Japan-U.S. Trade, 100 Questions and Answers by the Japan Times, Ltd. (1982) which is available for loan from The Japan Project. Many, if not all, Japanese Consulate offices should also have a copy.

5. Assign a research task where students find cases of the U.S. placing quotas on foreign agricultural products and other goods. After familiarizing them with general arguments for and against free trade, have them debate whether any nation should place quotas on products.

6. Have students read and discuss Appendix II, "A Brief Trade History of Japan," and/or Appendix III, "Trade and Less Developed Countries," for further background.

Evaluation

1. Have students debate whether they think the U.S. or Japan had a stronger case in the "Oranges and Beef" issue. Students should be evaluated partly according to how well they incorporated the ideas of the overall unit (particularly Part V), and partly on any original thinking or research they did to amplify the two positions presented.

2. You may want to use the questions provided to evaluate comprehension.

PROTECTION JAPANESE STYLE*

American producers regularly complain that the Japanese market is particularly tough to crack. U.S. public officials insist that we have to reduce our $10-15 billion** annual trade deficit with Japan.

The Japanese, for their part, claim that they have been drastically cutting their tariffs in recent years, and that the tariff level in Japan will soon be below that in the United States. If Japanese tariffs are not especially high, why is it so difficult for American businesses to penetrate the Japanese market?

One area in which Japan does have stiff import restrictions is agricultural products. Quotas on imports of meat and fruit create large price differences between the Japanese market and the American market--$20 a pound for steak and $35 for melons in Tokyo, for example.

However, the main obstacles to selling more American products in Japan are not formal trade barriers. One of them is Japanese government red tape. For instance, documentation and testing of American cars sold in Japan add as much as $500 to the price of each car. Testing for the safety of U.S. health care products is required in Japan, even if similar tests have already been performed for the same products marketed in the United States.

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** This figure represents the trade deficit at the time the book was written.

But perhaps the greatest barrier American businesses have to overcome is cultural. First, there is a general resistance in Japan to things foreign--a "buy Japanese" attitude.* It is much stronger than the "buy American" sentiment in this country, perhaps stemming from their historic cultural and economic isolation. Second, and perhaps even more of an obstacle, the formalities and informalities of Japanese business conduct are significantly different from those in the West. Personal relationships are more important in Japanese business dealings. Socializing over a cup of tea is an essential ingredient in business negotiations. The Japanese characterize such business dealings as "wet," in contrast to the "dry," more businesslike and less personal practices in the United States and other western countries.

It takes considerable time for U.S. firms to develop a market in Japan. American business has been criticized for having too short a profit horizon. Many proposed business activities that don't promise to show profits within a few months are rejected. The small number of American business people who take the time to learn the Japanese language attests to a lack of commitment to nurturing the Japanese market. By comparison, a Japanese business representative may spend 10-15 years in the United States making contacts and learning the language. Some American firms that have put forth the effort have had success with sales in Japan; included among these firms are IBM, Coca-Cola and McDonald's.

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* On the other hand, there is also a strong attraction to things foreign, particularly foods and fads from the West.

FOR THOUGHT

1. What type of non-tariff barriers restrict imports into Japan? Can you think of any similar barriers that restrict imports into the United States?

2. Who would gain and who would lose if Japanese quotas on agricultural imports were abolished?

3. Americans' lack of ability in speaking foreign languages is said to hamper the country in business dealings, international understanding, and cultural growth. Do you think that more study of foreign languages should be required of American students? What would be the trade-off of increased language requirements in our schools?

UNDERSTANDING PROTECTIONISM

Beef and Oranges: A Case Study in U.S.-Japan Trade Negotiation

Introduction

So what's all the fuss about oranges and beef? Why do the Japanese have import restrictions on some agricultural products, as suggested in the preceding article "Protection Japanese Style" (paragraph three)? One of the biggest bones of contention (sources of disagreement) between the U.S. and Japan in the area of trade has been Japan's reluctance to import more beef and citrus products from the U.S. The latter is a California export, of course, as we learned in a previous exercise. Why, if both of these products are so expensive in Japan (due to a small supply of them and unmet continuing demand for the two foods), isn't there an effort to import more of these two commodities?

Why, if we are Japan's best trading partner (highest volume of trade) and Japan is our second best partner after Canada, are there such problems? Some of the main arguments on both sides are presented below. Read both the Japanese and American perspectives and answer the questions following them.

The Japanese Perspective

1. Japanese farmers (and their very powerful agricultural lobbies) want Japanese products promoted before "foreign" products. One reason is that the nation was on the verge of starving in the years immediately after World War II. Farmers therefore feel that Japan has to keep a minimum level of agricultural self-sufficiency (ability to feed themselves), even if buying food abroad is cheaper than producing it themselves.

The American Perspective

1. American farmers and politicians feel that if they can supply cheaper, high quality products abroad (thus helping the Japanese consumer), why shouldn't they? Isn't this what "free trade" is all about--the company (or country) which supplies the cheapest and best products should get the business.

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2. The farm vote is very important to Japan's ruling Liberal Democratic Part (LDP). They feel that in order to stay in power as they have been since WW II, they need to keep the farmers happy.

3. Japanese consumers have been basically willing to pay very high prices for beef and oranges or to substitute Japanese mandarin oranges (mikan) or other types of meat and tofu (soybean curd) for beef from abroad.

4. There are similar quotas (limits) in the U.S. on foreign beef and other agricultural products in order to protect American farmers.

2. If the Japanese are not willing to increase quotas, then the U.S. will be forced to charge about a 10% import surcharge (tax) and/or limit Japanese imports into the U.S. by a new law. This position was presented to the Japanese by U.S. trade representative William Brock.

3. America buys more from Japan than it sells, thus giving it a negative trade balance with Japan. Therefore, it would help this inequality if Japan bought more U.S. goods.

QUESTIONS

1. Which side do you think has a stronger case? _____

Why? _____

_____

_____

2. How important is it to any nation to have some degree of self-sufficiency in food? _____ If you were a government policy maker, what would you do? _____

_____

_____

_____

_____

Settlement Reached

Fortunately, in early April 1984, the two opposing sides did reach an agreement to increase the amount of both beef and citrus products (including juices) exported to Japan over the next four years. The new agreement may add up to about $200 million a year for the U.S., measured against a trade deficit between $15 and $20 billion per year. Note, however, that we have a big surplus with Japan in the services area; that is, we make more by providing a variety of services to Japan than they make from exporting services to us.

Thus, the negative trade balance with Japan is only part of the overall trade picture. Also, most economists feel that one must look at multilateral (many-sided or multi-nation) trade relationships, not just bilateral (two-way--for example, U.S.-Japan) economic relations in order to understand the world trade picture more accurately. In other words, only knowing that the U.S. imports significantly more goods from Japan than it exports is not enough. One must also know how the U.S. import-export balance is with the whole world, not just with Japan. The same can be said for Japan.

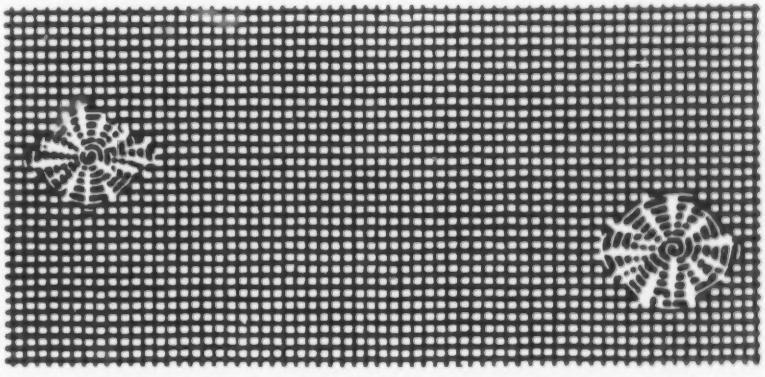
What is the larger meaning, then, of the beef and citrus agreement? Many people who have been analyzing this trade dispute feel that settlement of the beef and citrus question is symbolic, especially for America, of Japan's being willing to open its markets to the U.S. in other areas of trade and commerce. It's also an opportunity for the governments of the two countries to become closer partners than ever, now that one very emotional issue between them has been resolved.

The Japanese government was happy to see on a recent Gallup poll (Sunday, April 8, 1984) that 57% Americans who answered the poll feel Japan is a reliable ally (versus 44% who answered that way the previous year.) The percentage who felt Japan was untrustworthy dropped from 33% to 24%.

The Future

Still, many trade issues need to be resolved between the U.S. and Japan. One area of particular trade friction is Japan's reluctance to import more manufactured goods. For example, America wants to sell satellite and other high-technology products to Japan. As a U.S. reporter for the Washington Post put it, "America has a 'Japan problem' in terms of manufactured goods imported here, because their companies beat us out with good business management in consumer products ranging from video recorders to automobiles. Increasingly, the contest will turn to communications technology, as both our economies become more and more service-oriented."

The U.S. also hopes to reach an accord (agreement) regarding the licensing of computer software, which is an area where the U.S. has an advantage over Japan. These larger issues will now be addressed since the emotional issue of "Where's the beef" (and citrus) has been solved through long negotiations between our two governments.



QUESTIONS:

1. What will the agreement mean for Japanese consumers? _____

2. What effect will the agreement have on the trade deficit the U.S. currently has with Japan? _____

3. What is the limitation of looking only at the U.S.-Japan balance of trade of goods, and not considering other ways the U.S. and Japan interact economically? _____

4. What is the larger meaning of the beef and citrus agreement? _____

5. What are two remaining issues to be resolved? _____

6. In one author's opinion, what is a key to Japan's success in the marketing of consumer products? _____

QUESTIONS:

1. What will the agreement mean for Japanese consumers? GREATER AVAILABILITY AND LOWER PRICES OF BEEF AND ORANGES.
2. What effect will the agreement have on the trade deficit the U.S. currently has with Japan? NOT TOO MUCH: $200 MILLION A YEAR IN SALES VERSUS A DEFICIT BETWEEN $15 AND $20 BILLION.
3. What is the limitation of looking only at the U.S.-Japan balance of trade of goods, and not considering other ways the U.S. and Japan interact economically? IT ONLY TELLS PART OF THE STORY, SINCE THERE ARE AREAS WHERE THE U.S. HAS A SURPLUS WITH JAPAN. ALSO, ONE MUST LOOK AT A COUNTRY'S BALANCE WITH THE REST OF THE WORLD IN ORDER TO KNOW HOW IT IS DOING. IN OTHER WORDS, MERELY LOOKING AT A BILATERAL BALANCE OF TRADE IS NOT ENOUGH.
4. What is the larger meaning of the beef and citrus agreement? (A) IT IS SYMBOLIC OF JAPAN'S BEING MORE WILLING TO NEGOTIATE FURTHER ON OPENING ITS MARKETS. (B) IT HAS "CLEARED THE AIR" BETWEEN THE TWO GOVERNMENTS, THUS MAKING POSSIBLE NEGOTIATIONS ON REMAINING AREAS OF CONCERN. (C) THE AGREEMENT IS AN AFFIRMATION OF THE STRENGTH OF THE U.S.-JAPAN PARTNERSHIP TO BE ABLE TO SETTLE A LONG-STANDING DISPUTE.
5. What are two remaining issues to be resolved? (A) TO INCREASE U.S. SALES OF MANUFACTURED GOODS TO JAPAN (B) TO REACH AGREEMENT ON LICENSING OF COMPUTER SOFTWARE (PROGRAMS, ETC.)
6. In one author's opinion, what is a key to Japan's success in the marketing of consumer products? GOOD BUSINESS MANAGEMENT. (NOTE THAT THIS IS AN OVERSIMPLIFIED EXPLANATION OF WHY JAPANESE LEAD THE WORLD IN THE PRODUCTION OF CONSUMER GOODS.)

APPENDICES

APPENDIX I: Glossary

1. ABSOLUTE ADVANTAGE: When one producer can make a product more efficiently than another producer. The two producers both gain when each makes the product in which it has an absolute advantage and trades part of its output for the other product.

2. CAPITAL: (a) Money invested in, or available for investment in, productive resources—land, machinery, factories, tools, or other resources that will be used in the future production of goods and services. (b) The productive resources themselves (land, machinery, tools, buildings, equipment, and so on.)

3. COMMAND (CENTRALIZED) ECONOMY: An economic system in which the basic questions of what, how and for whom to produce are resolved mainly by the government which also owns the means of production.

4. COMPARATIVE ADVANTAGE: When one producer can make two or more products more efficiently than another producer, but the ratio of advantage is greater in one of the products than the other. Both parties gain when the more efficient producer makes the product in which it has the greater advantage and the less efficient producer makes the product in which it has the smaller disadvantage.

5. CONSUMER: A person who uses a product. For example, we are all consumers of food, like oranges and bread. We are also consumers of things such as record albums, cars, clothing, refrigerators, hairbrushes, and so on.

CUSTOMS DUTY see: TARIFF

6. EXPORTS: Goods and services which are produced in one country and sent to another country for sale.

7. FINANCING: A supply of money, often in the form of a loan; or, a substitute for money such as credit (delayed payment). For example, if you wanted to buy a stereo set now but you didn't have enough money, you could get financing by: (a) borrowing the money (a loan), or (b) having the stereo store let you pay later (credit).

8. FOREIGN EXCHANGE: (a) Foreign currency (money). Different countries use different types of money. (Examples: U.S. dollars, Japanese yen, Mexican peso, German Deutschemark) (b) The exchange of one nation's currency (money) for that of another country. For example, exchanging U.S. dollars for Japanese yen is a foreign exchange transaction.

9. FREE TRADE: International trade that is not restricted by government protectionist measures (quotas, tariffs, non-trade barriers, etc.)

10. GENERAL TRADING COMPANY, JAPANESE: Japanese "general trading companies" specialize in performing the various functions of international trade as a service for other companies. GTCs import and export hundreds of different products to and from many countries all over the world. They also help develop raw materials and set up factories, plants, and other projects in many countries.

11. GOODS: Articles or products; things bought and sold or traded.

12. IMPORTS: Goods and services sold in one country which have been produced in another country.

13. INSURANCE PREMIUM: The fee (a sum of money) paid to an insurance company in exchange for insurance. For example, a company may pay an insurance premium in order to insure its goods against some kind of damage. Then, if the goods are damaged accidentally, the insurance company will pay to replace the goods or to fix the damage.

14. INTEREST: A sum of money which lenders, such as a bank, collect from the people that have borrowed their money. This interest charge is a fee that the borrower must pay in return for the privilege of being allowed to use another person's money (such as the lender's or the bank's money) for a certain period of time. This interest charge is usually expressed as an annual percentage rate.

15. INTERNATIONAL TRADE: The exchange of goods and services between nations.

16. MARKET ECONOMY: An economic system in which the basic questions of what, how and for whom to produce are decided mainly by buyers and sellers using markets. The means of production are owned by private citizens. Price determines economic decisions made by producers and consumers.

17. MANUFACTURED GOODS: For the purposes of this unit, manufactured goods include (by main material) leather, tires and tubes (rubber and plastic), wood, paper/paperboard, textile yarns and fabrics, nonmetallic mineral manufactures, iron, steel, nonferrous metals, and manufactures of metals.

18. MIXED ECONOMY: An economic system in which the basic questions of what, how and for whom to produce are decided by a combination of market forces, governmental authority, and/or custom and tradition. The U.S. and Japan are fundamentally market economies where the government plays a significant, but not primary, part in economic decision-making.

19. PROTECTIONISM: A government's attempt to limit or exclude those imports which compete with domestic (the country's own) production.

20. "QUALITY OF LIFE:" A concept of how happy, comfortable, safe, and prosperous we are in our lives. This is not a fixed concept. Probably every person will define quality of life a little differently. When we think of the quality of life in the United States, we might think of good things such as: free education; availability of food, drink, clothing, and shelter; a democratic political system;

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20.	"QUALITY OF LIFE:" (cont.)	enough leisure time for people to rest and to play; a wide selection of desirable goods in the stores; and so on. We might also think of other things that worsen the quality of life in America, such as crime, unemployment, pollution, and so on.
21.	QUOTA:	A limit on the quantity or value of a good that can be imported in a particular time frame.
22.	RAW MATERIAL(S):	A product or natural resource that will be used to make another, new product or manufactured good. Examples: iron ore is a raw material used in making steel; in turn, steel is a raw material used in making cars.
23.	SERVICES:	Work or activity that may be sold and is consumed as it is provided. For example, having a tooth pulled, or consulting on how to use a product are services.
24.	SPECIALIZATION (in international trade):	Each country produces only the good(s) in which it has an advantage (either comparative advantage or absolute advantage).
25.	SUBSIDY:	A grant by a government to a private person or company to assist an enterprise deemed advantageous to the public.
26.	TARIFF (CUSTOMS DUTY):	A tax on goods imported into one country from another. Tariffs are designed to protect domestic producers from foreign competition; however, tariffs also increase the cost of products to consumers (those buying the goods).
27.	TELEX:	This is a type of worldwide communication which can transmit written messages across the world in less than 5 minutes. Because telex machines can send messages more quickly and conveniently than telegraphs, many businesses have telex machines in their own offices.
28.	TRADITIONAL ECONOMY:	An economic system in which the basic questions of what, how, and for whom to produce are decided mostly by custom and tradition.

APPENDIX II: A Brief Trade History of Japan*

Lacking natural resources, Japan depends on trade to maintain herself as an industrial country and keep up an adequate standard of living. Trade has been the most important element in national policy since the Meiji Restoration, and national effort has continuously channelled into it. In the mid- and late 19th century period, when Japan's international trade began, her raw silk met with great demand in America and Europe. This was fortunate for her as a means of earning the foreign currency she needed for the imports essential to modernization of the country. In the export of raw silk and silk textiles, therefore, Japan remained a leader until the 1930s.

With the 20th century, a cotton industry also developed rapidly, and cotton textiles too came to be exported. With the brake placed on the cotton trade in England, France and Germany by World War I, cotton goods replaced light industry products in first place among Japanese exports.

Principal imports at this time were the foods needed to support the increasing population, the raw cotton needed by the ever-expanding cotton industry (raw cotton remained constantly at the top of the import list in the early 20th century), and machinery.

America was the country's main trading partner even before the war, and over a long period, one third of the trade total was with America, that with the Southeast Asian countries taking second place. Following Japan's advances into the Asian continent, emphasis came to be placed on trade with Asia, which gradually expanded until it accounted for more than half of both the export and import trades.

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*Reprinted from Understanding Japan: A Teachers' and Textbook Writers' Handbook on Japan (1981) by permission of the International Society for Educational Information, Tokyo, Inc.

In the period leading up to and during World War II, Japan's international trade came virtually to a stop; with the postwar revival of industry, however, it again saw a continuing expansion, in particular during the 1960s. Types of product exported and imported and trading partners, differed from those of prewar days. The trading pattern was now similar to those of the advanced industrial nations of Europe or that of America: Raw materials and foodstuffs were imported, and finished goods were exported. Moreover there was a shift in exports from light industry products to those of the heavy industries—automobiles, ships and electrical equipment of appliances.

With imports, the percentage of raw material imports accounted for by crude oil has increased year by year. After this come iron ore and lumber, and foods, as well as feedstuffs for livestock, account for no small percentage of the total. With the establishment by many nations of 200-mile economic waters or exclusive fishing zones, imports of marine products, too, have increased. But the recent successive rises in the price of crude oil have brought payments for oil to more than half of the total import budget, making Japan's import pattern different from that of any other country in the world.

Over a great part of this postwar period, trade with America accounted for about one third of both imports and exports, that with the Southeast Asian countries for another third, and that with all other countries together for the remainder. Rises in the price of crude oil have upset this balance, at least for imports.

The ratio of exports to GNP in most of the advanced industrial countries is approximately 15%. In the case of Japan the ratio is still only about 10%, so that there still remains a potential for the future expansion of trade.

APPENDIX III: Trade and Less Developed Countries

INTRODUCTION

Most economists agree that trade helps all countries that engage in it. But sometimes theories need modification for application to real life. One such case is the example of less developed countries (LDCs) and trade. LDCs are nations whose economies are significantly less industrialized and/or service-oriented. Often, they were former colonies of other countries. Their participation in the world market began during the colonial era and their economic development was for the benefit of the ruling nation or empire, not for the colonies themselves. These countries are in the "Third World"--Asia, Africa, and Latin America.

REDUCING IMPORT DEPENDENCY

One of the major problems LDCs face is the desire to develop modern industry within their own countries, instead of depending on imports of industrial products and technology from industrialized nations. However, many LDCs' current comparative advantage is not in modern industries but in agriculture, mining, forestry, or other primary enterprises. As a result, LDCs may try to limit industrial imports and develop their own advanced industries by imposing protectionist regulations, such as import quotas and tariffs. Or, the LDC may require foreign investors to build factories, train workers and produce higher technology items inside the LDC countries. By protecting their industries, policy makers hope to soon become competitive as managers and workers gain more experience. Although these "infant industries" may grow as hoped, most often they remain uncompetitive and slow a country's economic growth.

PROBLEMS REGARDING TERMS OF TRADE

As for trade, LDCs also face the "terms of trade" issue. "Terms of trade" refers to the prices paid for imports and the prices received for exports.

LDCs worry that the prices of exports will decline relative to the prices of imports, that their "terms of trade" will turn against their interest. Long-term trends in "terms of trade" are debated, but recent experience shows a trend of declining "terms of trade" for LDCs.

In recognition of the problems LDCs often face in international trade, some more developed countries try to help by creating certain trade policies to aid LDCs. For example, the United States charges a "preferential" (lower) import duty on many goods imported into the U.S. from LDCs. (The duty on the same good imported from a non-LDC would be higher.) This gives an advantage to LDCs who sell their goods in the United States. But in many cases this same "most favored nation status" locks out LDCs. Unfortunately the U.S. and other industrialized countries that have given trade preferences to LDCs have inserted so many restrictions into their programs that little help is provided to most LDCs.

RELIANCE ON ONE MAIN EXPORT

Another trade problem, often resulting from colonial development priorities, is that some LDCs rely on only one major export. When the world price for that product falls, the LDC earns less money in return for its exports. If some disaster, such as bad weather, ruins the crop or halts the production of the exported good, suddenly that nation has little to export. Reliance on only one export (or a few) is common among LDCs and makes their economies very unstable, even though that one export may have the greatest comparative advantage. This is another reason why LDCs may have good reason to try to develop industries, ones in which they eventually might have a comparative advantage.

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ADDRESSES OF SELECTED ORGANIZATIONS

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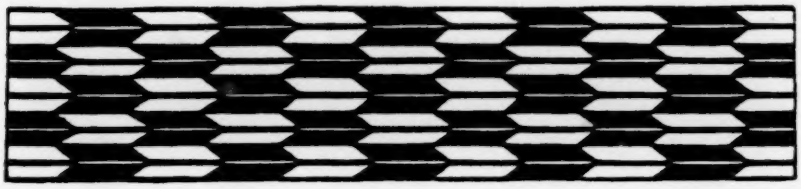

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